



DERWENT
LONDON

Derwent London plc
Report and Accounts 2022

THE LARGEST LONDON OFFICE- FOCUSED REIT WITH A DISTINCTIVE 5.5 MILLION SQ FT PORTFOLIO



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VISION

We craft inspiring and distinctive space where people thrive.

PURPOSE


We design and curate long-life, low carbon, intelligent offices that contribute to London's position as a leading global city, while aiming to deliver above average long-term returns for all our stakeholders.

VALUES

- We build long-term relationships
- We lead by design
- We act with integrity

CULTURE

- Dedicated and adaptable
- A passion to improve London's office spaces
- Strong customer focus
- Progressive and pragmatic
- 'Open door' and inclusive
- Collaborative and supportive

 BUSINESS MODEL / See page 36

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Francis House SW1



“A former Army and Navy depository and store, the building has been remodelled to provide maximum light penetration, generously sized workspaces and double height volumes. The original grand staircases and a magnificent lift shaft have been exposed with designs that celebrate the building’s history and Victorian craft.”

TIM GLEDSTONE
PARTNER, SQUIRE & PARTNERS

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OUR YEAR IN REVIEW

MANAGEMENT FOCUS

The flight to quality in London offices gathered pace in 2022 with prime buildings continuing their relative outperformance in occupational and investment markets.

Real estate valuation yields, however, came under pressure in the second half of the year as global events led to higher inflation and tighter monetary conditions. As a consequence, the cost of capital increased, leading to a fall in capital values across the sector.

Many businesses recognise the important role offices play in retaining and attracting talent. We remain focused on the fundamentals of designing and curating amenity-rich, 'long-life, low carbon, intelligent' offices that contribute to London's position as a leading global city and which appeal to an ever more discerning occupier base.

In 2021, we made the decision to retain more of our greener and recently regenerated buildings where we see further outperformance over the next few years. However, we continue to recycle capital and, in 2022 we sold £206m of assets above book value where we identified lower growth opportunities, helping maintain net debt at £1.3bn. Proceeds have been recycled into development capex and longer term development opportunities, keeping our LTV ratio low.

The strength of our capital structure and the high quality of our balanced portfolio, coupled with the positive prospects for central London, give us confidence in our positioning.

We have the financial capacity to deliver our committed programme, with a pipeline of major projects that extends to more than 1.8m sq ft of prime offices, while remaining opportunistic regarding potential acquisitions to restock our pipeline.

As a total return business, we recognise the importance of balancing value creation and earnings. This has helped us to continue to grow our covered dividend each year.

A summary of our performance for 2022 is presented here.

We look forward to delivering further high quality offices meeting today's occupier needs and thereby generating above average long-term returns for our shareholders.

REASONS TO INVEST

Focusing on the fundamentals

DESIGN-LED DEVELOPMENT

➤ See page 22

OCCUPIER-FOCUSED SOLUTIONS

➤ See page 24

NET ZERO CARBON

➤ See page 26

A DYNAMIC & INCLUSIVE TEAM

➤ See page 28

STRONG CAPITAL MANAGEMENT

➤ See page 30

OPERATIONAL HIGHLIGHTS

WAULT (TOPPED UP)

7.2 years

weighted average unexpired lease term after adjusting for 'topped-up' rents and pre-lets

NEW LETTINGS

£9.8m

agreed in 2022 on 163,000 sq ft, 13.0% above Dec 2021 ERV

VACANCY RATE

6.4%

our EPRA vacancy rate increased during the year

EMPLOYEE SATISFACTION

88%

based on our 2022 employee survey

ENERGY INTENSITY

-4%

annual reduction to 123 kWh/sqm

PERFORMANCE HIGHLIGHTS

NET RENTAL INCOME

£188.5m

⊕ 6.0%

2021: £177.9m¹

TOTAL PROPERTY RETURN

-3.4%

⊖ 9.7%

2021: +6.3%

EPRA EARNINGS PER SHARE (EPS)

106.6p

⊖ 1.8%

2021: 108.5p¹

EPRA NET TANGIBLE ASSETS (NTA) PER SHARE

3,632p

⊖ 8.3%

2021: 3,959p

DIVIDEND PER SHARE

78.5p

⊕ 2.6%

2021: 76.5p

TOTAL RETURN

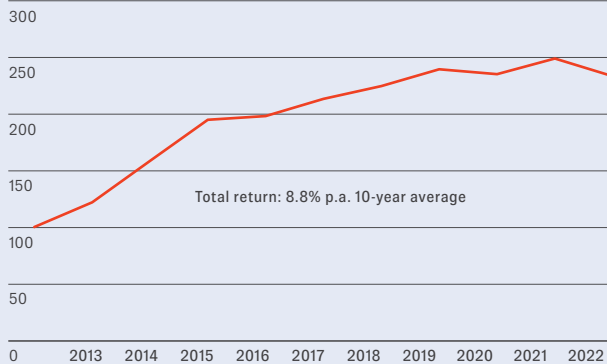
-6.3%

⊖ 12.1%

2021: +5.8%

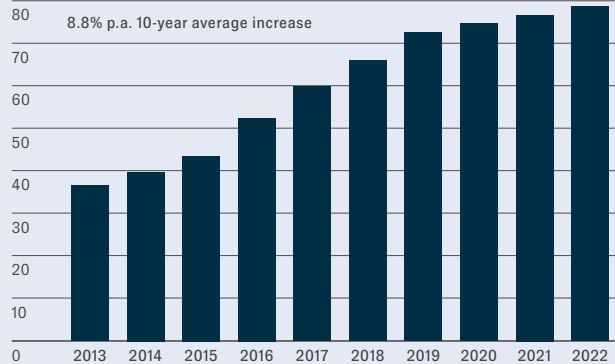
TOTAL RETURN INDEX

Total return index (31 Dec 2012 = 100)



TOTAL DIVIDEND PER SHARE

Pence (excluding special dividends)



DEBT HIGHLIGHTS

NET INTEREST COVER

423%

2021: 463%¹

AVERAGE SPOT INTEREST RATE (CASH BASIS)

3.14%

2021: 3.14%

EPRA LOAN-TO-VALUE RATIO

23.9%

2021: 22.3%

FIXED RATE DEBT AS % OF TOTAL

100%

2021: 99%

CASH AND UNDRAWN FACILITIES

£577m

2021: £608m

AVERAGE MATURITY OF BORROWINGS

6.2 years

2021: 7.2 years

¹ Restated – see note 2 on pages 247 to 250.

OUR YEAR IN REVIEW continued

STRATEGIC HIGHLIGHTS

KEY PROGRESS IN 2022

Despite the economic and geopolitical events in 2022, we have stayed focused on delivering our business strategy by continuing to develop prime, green buildings which remain in high demand, and expanding our customer offering, whilst also ensuring we kept our strong financial position.

COMPLETED 450,500 SQ FT OF MAJOR PROJECTS

With the completion of three major projects, we delivered 450,500 sq ft of high quality new space. The largest of these was Soho Place W1, a complex development encompassing office, retail and the first new-build theatre in London's West End for over 50 years. Together these projects deliver a combined rental value of £32.7m to the business after the sale of 2-4 Soho Place (site B).

RECYCLED £206m OF CAPITAL

During the year we recycled £206m of capital through strategic disposals, providing funds to re-invest in the portfolio. This included Bush House WC2 for £85m which enabled us to crystallise development profits early without the inherent project risks.

MAINTAINED STRONG FINANCIALS

Whilst market interest rates rose significantly during the year, this had minimal impact on our overall cost of borrowing given our very high proportion of fixed rate debt. Investment in the portfolio continued but, through disciplined capital recycling, our net debt was stable, ensuring leverage remains conservative and providing plenty of financial headroom.

PROGRESSED NEXT WAVE OF DEVELOPMENT PROJECTS

We remained focused on the execution of our next wave of major projects, with demolition works completing at Network W1 and Laing O'Rourke commencing construction works at 25 Baker Street W1 under a fixed price contract.

ENHANCED CUSTOMER OFFERING

Following the success of DL/78 and its first full year of operations, we committed to opening another amenity hub for our customers, DL/28, at our newly developed The Featherstone Building EC1. In addition, during 2022 we continued to drive enhanced service for our customers through increased third party member discounts and an extensive programme of events.

PRIORITIES IN 2023

During 2023 we will further advance our pipeline and continue to explore other opportunities within our portfolio to add value while we maximise income and drive earnings growth.

PROGRESS ON-SITE SCHEMES AND SECURE PRE-LETS

We will progress on-site activities at 25 Baker Street and Network, with a combined floor area of 435,000 sq ft, and also seek to de-risk these projects by securing pre-lets on some of the space.

ADVANCE PLANNING FOR FUTURE PROJECTS

During 2023 we will progress planning applications for our next generation of major projects. This includes 50 Baker Street W1 (jointly owned with Lazari Investments) and Old Street Quarter EC1, which collectively have the potential to deliver c.1m sq ft of high quality space. In addition, we will seek a refreshed planning permission for Holden House W1.

DELIVER DL/28 AT THE FEATHERSTONE BUILDING

We are committed to delivering DL/28 at The Featherstone Building during 2023. Once complete, this will enable us to provide our customers with access to two strategically located amenity hubs – one in the west in Fitzrovia and one in the east in Old Street.

IDENTIFY FURTHER PORTFOLIO OPPORTUNITIES

We will continue to explore further opportunities to add value through regeneration of our buildings, including asset repositioning and EPC upgrades, increasing our 'Furnished + Flexible' offering and exploring Life Sciences possibilities.

PROACTIVE ASSET MANAGEMENT

The Asset Management team will proactively manage upcoming breaks and expiries to retain and maximise income in order to drive earnings growth.

MAINTAIN FINANCIAL STRENGTH

Through robust capital management we will continue to maintain a strong financial position, ensuring we keep good headroom on our covenants.

ESG HIGHLIGHTS

KEY PROGRESS IN 2022

2022 saw us make further progress on our journey to net zero carbon by 2030. Our workforce remains highly engaged in this area and we continued to invest in delivering social value for our stakeholders.

REDUCTION IN ENERGY INTENSITY AHEAD OF TARGET

The energy intensity of the managed portfolio reduced 4% to 123 kWh/sqm (2021: 128 kWh/sqm). This is ahead of our 1.5°C aligned target for the fourth year in a row, which for 2022 was 139 kWh/sqm. See page 56 for more details.

MEETING EMBODIED CARBON TARGETS

Three major net zero carbon projects completed in the year: Soho Place W1, The Featherstone Building EC1 and Francis House SW1. Significant work was undertaken to minimise the residual embodied carbon through innovative use of lower carbon materials and construction methods. These offices achieved our 2025 embodied carbon target of ≤ 600 kgCO₂e/sqm. See page 56 for more details.

SOLAR PARK PLANNING CONSENT

Resolution to grant planning consent was received for a c.100 acre, 18.4MW solar park on part of our Scottish land. When completed and operational, we expect it to generate electricity equivalent to more than 40% of the needs of our managed London portfolio. See page 55 for more details.

ENGAGED WORKFORCE

Of the 94% of respondents to our 2022 internal 'pulse survey', 91% agreed they are 'proud to work for Derwent London'. See page 28 for more details.

CO-FOUNDED CROSS-SECTOR HEALTH AND SAFETY (H&S) DATA

As part of our robust and transparent approach to H&S, we co-founded the cross-sector Real Estate Benchmarking Group for H&S data sharing.

SUPPORTING COMMUNITIES

As part of our ongoing package of community support, our annual community fund distributions increased 20% to £120,000. In addition, we have been working with a specialist consultant to define and develop our social value framework. See page 17 for more details.

PRIORITIES IN 2023

In 2023, we will look to make further progress on our journey to net zero with a focus on occupier engagement. We will ensure that we continue to create value responsibly and maximise the positive impact upon the communities in which we invest.

WORK WITH OCCUPIERS TO REDUCE ENERGY CONSUMPTION

Occupier engagement is key to managing down Scope 3 emissions by bringing greater focus to their energy usage and providing guidance on ways to proactively lower it. See page 54 for more details.

PROGRESS SCOTTISH SOLAR PARK

Construction works are expected to commence through 2023, subject to finalisation of planning consent. Our current expectation is to complete development in 2024. See page 55 for more details.

FURTHER EXPLORE CARBON REDUCTION INITIATIVES

We will continue to explore appropriate alternative lower carbon materials and methods of construction. See page 53 for more details.

CONTINUE TO EMBED DIVERSITY AND INCLUSION

We will continue to raise awareness around diversity and inclusion, with a particular focus on disability, to ensure we remain an employer of choice. See page 60 for more details.

PROGRESS SOCIAL VALUE FRAMEWORK

Having started the process of formally developing our social value framework, we expect to complete and implement our approach in 2023. See page 17 for more details.

OUR YEAR IN REVIEW *continued*

STAKEHOLDER FOCUS



OCCUPIERS

OUR APPROACH

Our Asset and Property Management teams maintain an ongoing dialogue with our occupiers. We provide high quality amenity, such as our occupier hub at DL/78, have a dedicated Customer Experience team who run a series of occupier events, and aim to take a collaborative approach to sustainability.

[READ MORE / See page 24](#)

PRIORITIES FOR 2023

- Further promote the DL/App and DL/78, and the associated benefits
- Deliver DL/28 at The Featherstone Building EC1 and drive occupier awareness
- Ongoing engagement and education around service charge and utilities cost inflation
- Work with occupiers to help further reduce their energy consumption



EMPLOYEES

We recognise that the success of the business stems from having high performing and engaged employees. We undertake annual employee questionnaires, alternating each year between full and short 'pulse surveys'. Our staff receive training on a variety of topics and are kept informed of business activities through monthly CEO-led town hall meetings and our intranet.

[READ MORE / See pages 28 and 59 to 62](#)

- Maintain a programme of training to ensure appropriate skills throughout the business
- Analyse 2022 'pulse survey' results with appropriate action to address opportunities
- Design and run our fifth biennial employee survey in October 2023
- Further embed diversity and inclusion, with a particular focus on disability



LOCAL COMMUNITIES & OTHERS

Our buildings are an integral part of the communities in which they sit and our engagement with them takes many forms. This can be both financial and non-financial. Employee volunteering, work experience opportunities and building open days all contribute to establishing and maintaining effective connections.

[READ MORE / See pages 57 to 58](#)

- Provide continued funding for our two community funds and publicise the improvements we made to the application process in 2022
- Complete and embed our new social value framework into our portfolio-wide community work



SUPPLIERS

We seek to partner with like-minded businesses. Through regular correspondence and update meetings, we operate our Supply Chain Responsibility Standard which includes our approach to net zero carbon. We adhere to strict Modern Slavery standards and are signatories to the CICM Prompt Payment Code, continuously working to treat our suppliers fairly.

[➤ READ MORE / See pages 132 to 133](#)

- Ensure ongoing compliance with our Supply Chain Responsibility Standard
- Continue to focus on paying our suppliers promptly
- Issue our annual Modern Slavery statement for 2023



CENTRAL & LOCAL GOVERNMENT

We maintain proactive relationships with local and central government departments where we engage across a variety of levels including local planners, local action groups and HMRC. The Group seeks to positively impact policy through involvement in various bodies, such as the Westminster Property Association (WPA).

[➤ READ MORE / See pages 132 to 133](#)

- Demonstrate our approach to social value as part of progressing planning applications for 50 Baker Street W1 and Old Street Quarter EC1
- Work towards further regeneration of Oxford Street East partnering with WPA and New West End Company (NVEC)
- Continue to represent the real estate sector at the Sustainable Markets Initiative (SMI)

[➤ RESPONSIBLE BUSINESS COMMITTEE REPORT / See page 182](#)



SHAREHOLDERS & DEBT PROVIDERS

Our transparent approach to engagement with shareholders and debt providers is premised on the value we see in long-term relationships. Through the year, we host a variety of events including roadshows, presentations, property tours and a combination of one-to-one and larger group meetings. All material news is published via Regulatory News Services (RNS).

[➤ READ MORE / See pages 132 to 133](#)

- Maintain conservative financing with a focus on interest cover and rigorous forward planning
- Ensure green finance is used to fund green projects with consistent application of our Green Finance Framework
- Maintain an open dialogue through a series of individual and group events

[➤ THE SECTION 172\(1\) STATEMENT / See page 131](#)

OUR PORTFOLIO

99% OF OUR PORTFOLIO IS LOCATED IN 14 LONDON 'VILLAGES'

Our portfolio weighting by villages

West End Central

■ Fitzrovia & North of Oxford Street	33%
■ Victoria	9%
■ Soho/Covent Garden	8%
■ Paddington	7%
■ Marylebone	4%
■ Mayfair	2%

West End Borders & Other

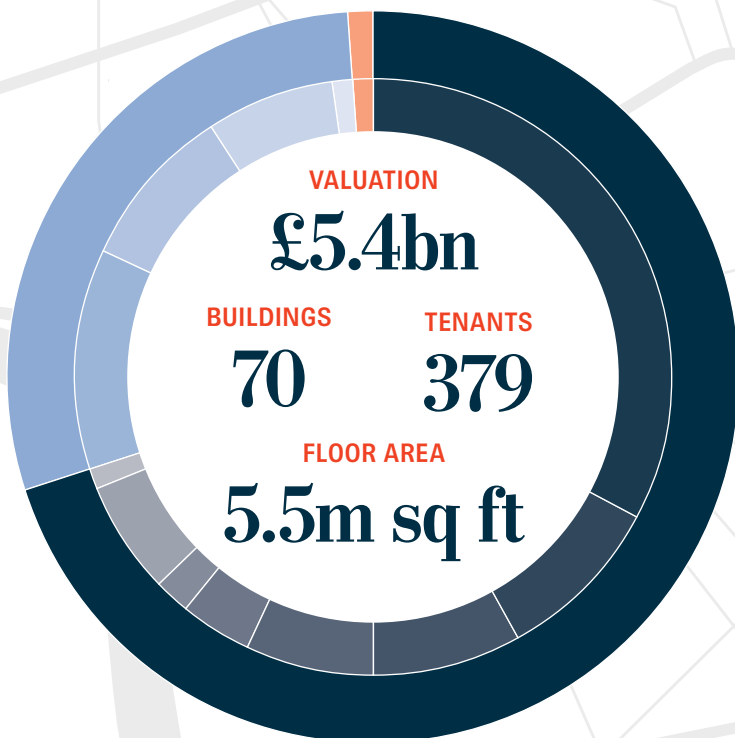
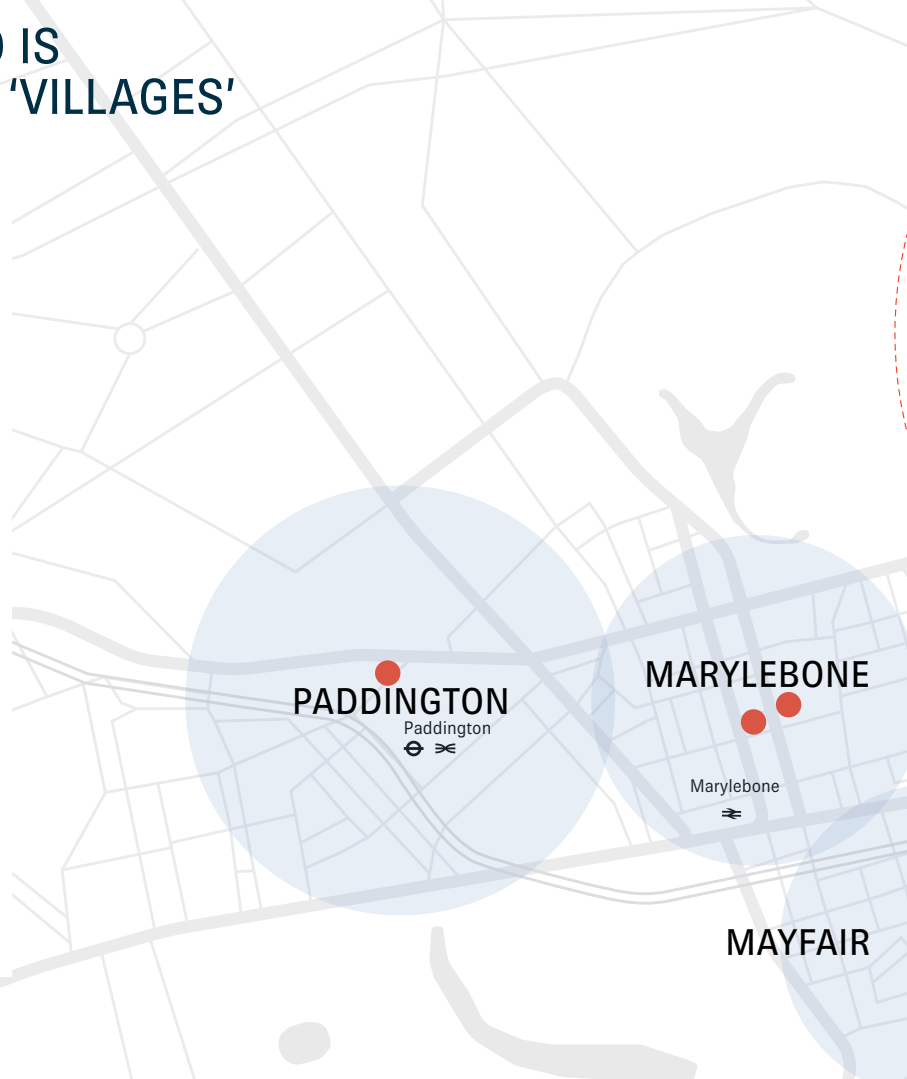
■ Islington and Camden	6%
■ Brixton	1%

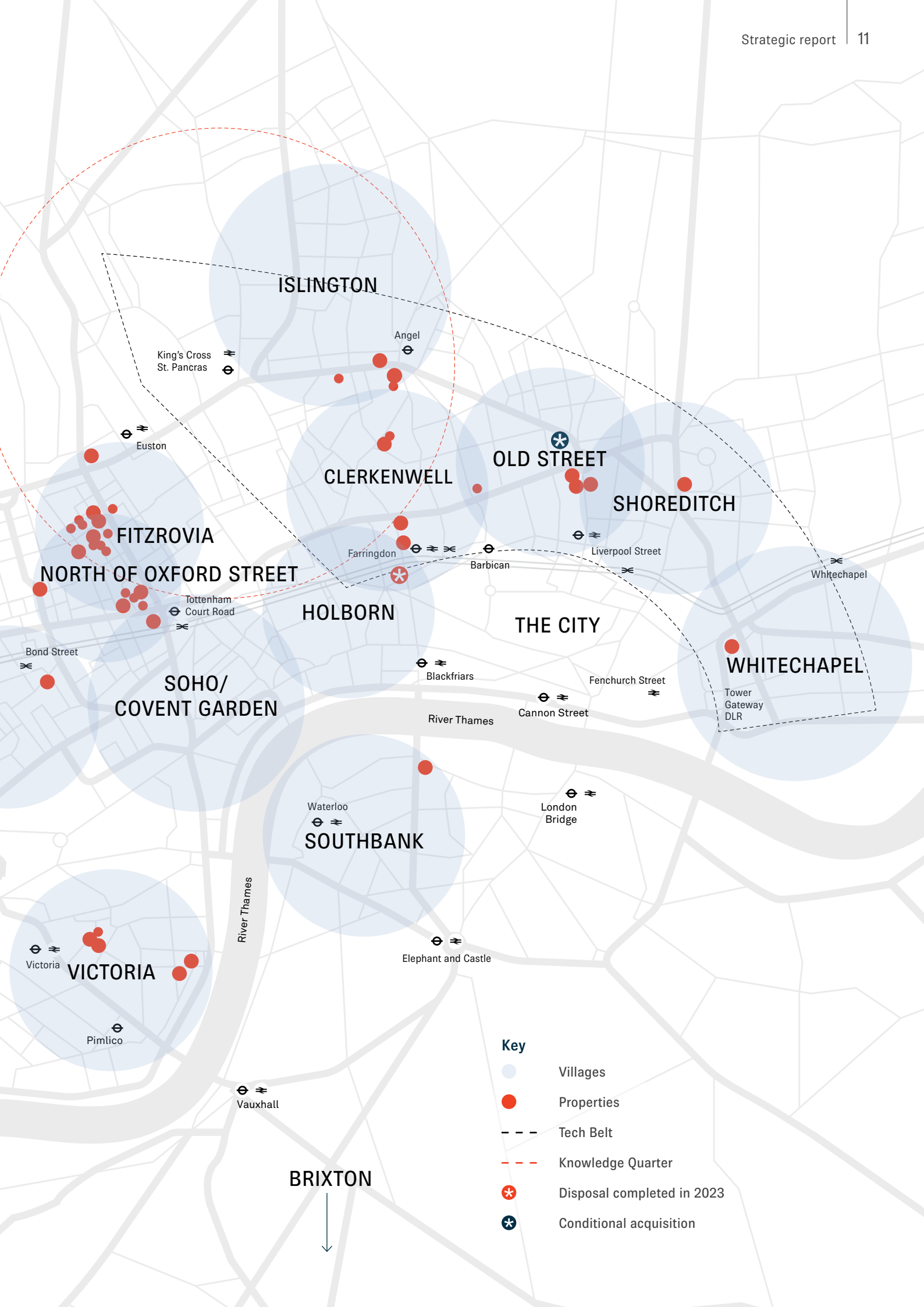
City Borders

■ Old Street	12%
■ Clerkenwell	9%
■ Shoreditch & Whitechapel	7%
■ Southbank	1%

Scotland

1%





ISLINGTON

Angel

King's Cross
St. Pancras

Euston

CLERKENWELL

OLD STREET

SHOREDITCH

FITZROVIA

NORTH OF OXFORD STREET

Farringdon

Barbican

Liverpool Street

Whitechapel

Bond Street

SOHO/
COVENT GARDEN

HOLBORN

THE CITY

WHITECHAPEL

Tower
Gateway
DLR

Blackfriars

Fenchurch Street

River Thames

Cannon Street

SOUTHBANK

Waterloo

London
Bridge

Victoria

VICTORIA

Elephant and Castle

Pimlico

Vauxhall

BRIXTON

Key

- Villages
- Properties
- - - Tech Belt
- - - Knowledge Quarter
- ✱ Disposal completed in 2023
- ✱ Conditional acquisition

PIPELINE

MAJOR PROJECTS

We typically invest £150m to £250m of capex into the portfolio each year across projects of varying size. Our aim is to have two to three major projects on site at any one time.

ON-SITE (435,000 sq ft)



25 BAKER STREET W1

TARGET COMPLETION **H1 2025**

298,000 sq ft

DEVELOPMENT

(108% area uplift)

Green finance: Elected

BREEAM: Outstanding (target)

NABERS: 4 Star + (target)

Architect: Hopkins

- The scheme comprises 218,000 sq ft of Grade A offices with 28,000 sq ft of retail and 52,000 sq ft of residential (including affordable), creating a new design-led destination in the heart of Marylebone, including an impressive landscaped courtyard
- Demolition is complete and sub and super-structure works are progressing well
- **Embodied carbon:** c.600 kgCO₂e/sqm (mid-Stage 5 estimate)
- **Total capex:** £283m, plus estimated overage of £18m



NETWORK W1

TARGET COMPLETION **H2 2025**

137,000 sq ft

DEVELOPMENT

(96% area uplift)

Green finance: Elect in 2023 (target)

BREEAM: Outstanding (target)

NABERS: 4 Star + (target)

Architect: Piercy&Company

- On-site works commenced in Q2 2022 for this project which incorporates 132,000 sq ft of offices and 5,000 sq ft of amenity retail
- Demolition is complete
- Negotiations are advanced with our preferred contractor regarding the main building contract
- **Embodied carbon:** c.530 kgCO₂e/sqm (Stage 4 design estimate)
- **Total capex:** £125m

MEDIUM-TERM (c.390,000 sq ft)



50 BAKER STREET W1

TARGET COMMENCEMENT **2024**

c.240,000 sq ft

DEVELOPMENT (at 100%)

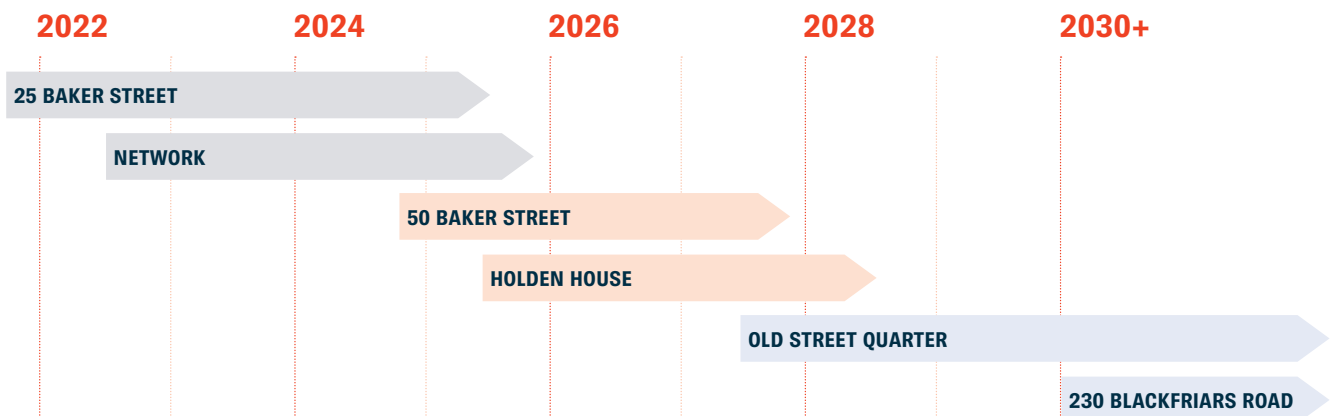
(96% area uplift)

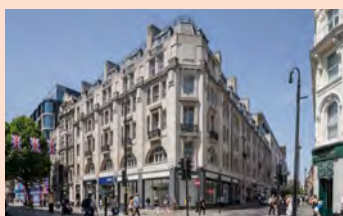
Existing: 122,300 sq ft (at 100%)

Planning: Submitted Q4 2022

Architect: AHMM

- Acquired 50% interest in Q4 2021 from Lazari Investments to form a 50:50 JV
- This site has potential for an office-led regeneration scheme of double the existing floor area
- Vacant possession is expected in late 2024 which broadly coincides with the target completion at 25 Baker Street





HOLDEN HOUSE W1

TARGET COMMENCEMENT 2025

c.150,000 sq ft

DEVELOPMENT

(c.67% area uplift)

Existing: 90,000 sq ft

Planning: Consented

Architect: DSDHA

- A planning consent for a retail-led retained façade project was granted in late-2017
- A design competition was held in 2022 and newly appointed architect DSDHA is working on a refreshed scheme which we anticipate will have a higher office weighting and stronger sustainability credentials

LONG-TERM (950,000+ sq ft)



OLD STREET QUARTER EC1

TARGET COMMENCEMENT 2027/8

750,000+ sq ft

DEVELOPMENT

Existing: c.400,000 sq ft

Planning: Application expected 2023

Architect: AHMM

- Conditional contract to acquire 2.5-acre island site for £239m on receipt of vacant possession (expected 2027)
- First condition was satisfied on 24 February 2023 with the receipt of final Treasury approval
- Good engagement with London Borough of Islington
- Office-led mixed-use campus regeneration with Life Science/ Lab-enabled space



230 BLACKFRIARS ROAD SE1

TARGET COMMENCEMENT 2030

200,000+ sq ft

DEVELOPMENT

Existing: 60,400 sq ft

- Leasehold interest acquired Q1 2022 for £55m at a 3.5% initial yield
- 30 surface car parking spaces contribute to potential floor area increase
- Post-acquisition lettings have strengthened medium-term income profile

In addition, we carry out smaller refurbishment schemes to upgrade buildings including EPC compliance. We expect the level of spend on these smaller projects to increase over the medium term.

➤ FOR CASE STUDY EXAMPLE SEE RETROFITTING SMALLER BUILDINGS / [See page 53](#)

On completion, buildings move into the core income portion of our portfolio where they continue to generate attractive returns for shareholders supported by our asset management strategy.

➤ SEE HOW WE ADD VALUE / [See page 39](#)

PIPELINE continued

FURTHER REGENERATION OPPORTUNITIES

In addition to our major developments (see pages 12 and 13), there are other regeneration opportunities within the portfolio.

These properties tend to sit in the 'Under appraisal' or 'Future appraisal' section of our balanced portfolio (see page 39). Some of these buildings will require investment to meet future Energy Performance Certificates (EPC) requirements, but simultaneously provide an opportunity to reposition the property with enhanced amenity and general upgrades which grow income and future-proof asset value.

We have typically spent c.£15-25m each year across the portfolio on smaller projects of this nature. Recent examples of completed upgrades include Francis House SW1, which incorporated a range of energy performance improvements, and 43 Whitfield Street W1 (see case study on page 53). The number of these regeneration projects is likely to increase over the medium term as we accelerate our investment to ensure EPC compliance by 2030.

Four examples of buildings with future regeneration potential, including EPC upgrade plans, are presented here.

EPC upgrades

- In 2021 a third party report identified £97m of works to achieve 2030 EPC compliance across our London commercial portfolio.
- This has since been updated to reflect the latest scope (change in building regulations) and 2022 cost inflation, increasing to £107m by the year end.
- Following the sale of 19 Charterhouse Street EC1 in January 2023, this has subsequently decreased to £99m.
- Some of this cost may be recoverable through the service charge.
- In their December 2022 external valuation, Knight Frank made a specific deduction of £58.4m for identified EPC upgrade works across the portfolio. In addition, further amounts have been allowed for general upgrades between assumed tenant vacancies.
- Refurbishing space to optimise rents as and when vacancies occur is an integral part of our business model and typically includes upgrades which improve a building's energy performance. A good example is our 'Green Tea' project at Tea Building EC1.

➤ <https://teabuilding.co.uk/>

- The four buildings shown here represent c.40% of the total identified EPC costs.
- Following the works, these properties are expected to achieve higher rents, thereby adding value and increasing cash flow.

The graph shown on page 15 demonstrates our progress during 2022 towards EPC compliance with 65.3% by estimated rental value (ERV) now 2030 compliant including on-site projects, up 4.3% from 61.0% at December 2021.

REFURBISHMENTS



20 FARRINGDON ROAD EC1

166,300 sq ft

OFFICES AND RETAIL

Average office rent: £53.55 psf¹

Potential office ERV: £80.00+ psf

WAULT: 1.2 yrs¹

EPC rating: 82%² B or above

- Prominent corner property
- Conveniently located next to Farringdon Elizabeth line station
- Opportunity to reposition with new street entrance, enlarged reception, improved terraces and enhanced amenity

¹ Topped up basis.

² By ERV.



1-2 STEPHEN STREET W1

266,200 sq ft

OFFICES AND RETAIL

Average office rent: £63.85 psf¹
Potential office ERV: £75.00+ psf
WAULT: 4.0 yrs¹
EPC rating: 11%² B or above

- Centrally located near Tottenham Court Road station and a short walk to DL/78
- Plans to improve energy efficiency of building through the installation of new low-energy heat pump systems and window improvements in conjunction with amenity upgrades
- Opportunity to capture rental growth since previous letting cycle



OLIVER'S YARD EC1

186,000 sq ft

OFFICES, FURNISHED + FLEXIBLE AND RETAIL

Average office rent: £56.35 psf¹
Potential office ERV: £60.00+ psf
WAULT: 6.7 yrs¹
EPC rating: 2%² B or above

- Located within our Old Street cluster
- Building will benefit from close proximity to DL/28 when it opens
- Opportunity to upgrade building entrance, reception, courtyard and amenities as well as carrying out EPC upgrade works



GREENCOAT & GORDON HOUSE SW1

138,300 sq ft

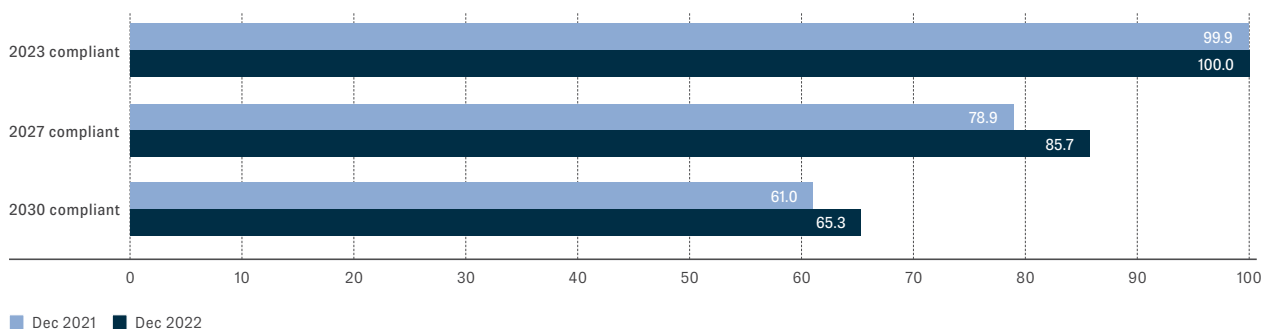
OFFICES

Average office rent: £58.60 psf¹
Potential office ERV: £73.00+ psf
WAULT: 2.7 yrs¹
EPC rating: 5%² B or above

- Two adjacent Victorian character buildings
- Located next to Francis House and Greencoat Place, both recently refurbished and successfully let at strong rents
- Full refurbishment opportunity with flexibility to connect floorplates between the buildings

Portfolio EPC compliance

London commercial portfolio (%)



CHAIRMAN'S STATEMENT

Derwent London aims to add value to its portfolio through a combination of major projects and refurbishment schemes, while recycling capital out of assets where we see lower forward returns. We are committed to delivering high quality and sustainable offices through the economic cycle.



MARK BREUER
Chairman

Global events in 2022 caused a marked increase in uncertainty. However, we have seen confidence return to the market in recent months as the economic outlook has improved.

Following the decision in 2021 to retain our larger modern developments for longer and to dispose of non-core properties, the business made good progress against this strategic objective and has seen relative outperformance against its property benchmarks. This, together with our objective of operating with low leverage, gives us firepower for further development and future investment opportunities.

Estimated rental values across our portfolio rose by 1.3% over 2022 but the rapid outward movement in property yields seen in the second half took our portfolio fair value to £5.36bn after a revaluation deficit for the year of £430.9m, including our share of joint ventures. This was a reversal from the £73.0m revaluation surplus seen at the half year and took the Group's EPRA net tangible asset (NTA) value to 3,632p at 31 December 2022. This equates to an 8.3% decrease over the year from 3,959p in December 2021.

Gross rental income rose 6.0% to £207.0m for the year. EPRA earnings were marginally lower than 2021 at 106.6p per share (2021 restated: 108.5p) but, after deducting premiums received in both years, underlying EPRA earnings were slightly up year on year.

We propose raising the final dividend by 1.0p to 54.5p, in line with our progressive and well covered dividend policy. It will be paid on 2 June 2023 to shareholders on the register of members at 28 April 2023.



Old Street Yard EC1

SOCIAL VALUE FRAMEWORK

Being a responsible business is of central importance to Derwent London. We understand the positive impact our investments can have on local communities. It is increasingly accepted across the real estate sector that social value should be integrated into our everyday business.

We must carefully consider how this impact is measured while ensuring that the value created is both sustainable and long-term.

Working with a third party social impact consultancy, we are developing a framework that outlines what social

value means to us and provides a set of guiding principles that will further help us design, deliver and monitor the impact of our engagement. It will ensure that our supply chain and occupiers are involved while complementing our corporate objectives and community strategy.

This takes the full year's dividend to 78.5p, an annual increase of 2.6%. EPRA earnings covered the 2022 interim and final dividends 1.4 times.

In 2022, we refreshed our Vision, Purpose and Values:

- **Vision:** We craft inspiring and distinctive space where people thrive.
- **Purpose:** We design and curate long-life, low carbon, intelligent offices that contribute to London's position as a leading global city, while aiming to deliver above average long-term returns for all our stakeholders.

- **Values:** We build long-term relationships. We lead by design. We act with integrity.

Derwent London is an inclusive employer. Our people remain highly engaged and in our recent employee survey, 91% of respondents said they were 'proud to work for Derwent London'. I would like to thank all the staff at Derwent London for their continued hard work and commitment.

In recognition of the challenges faced in the uncertain economic environment, we made a one-off cost of living payment to eligible employees.

After nine years on the Board, Richard Dakin is stepping down from his position as a Non-Executive Director of the Company and Chair of the Risk Committee. The Board thanks Richard for his significant contribution to the business and wishes him every success in the future. Helen Gordon, who is the Senior Independent Director and a member of the Risk Committee, will become Committee Chair.

MARK BREUER
Chairman

CHIEF EXECUTIVE'S STATEMENT

We have an opportunity-rich pipeline, underpinned by our high quality core portfolio. Our balance sheet remains strong helped by another year of active capital recycling.



PAUL WILLIAMS
Chief Executive

At the start of 2022, confidence levels in London were strong. In Q1, occupational and investment markets both recorded high levels of activity. The outlook weakened as the year progressed following the invasion of Ukraine and its economic impact globally, as well as changes in the UK political landscape. In more recent months, the outlook for the UK economy has improved and confidence is recovering.

London is very busy again. The opening of the Elizabeth line has increased capacity across the transport network, contributing to substantially higher footfall around the central stations, benefitting offices, shops and restaurants.

The flight to quality for London offices continues to gather pace. Data from CBRE show a clear divergence in demand for new versus secondhand space as businesses recognise the important role design-led, amenity-rich, low carbon offices play in attracting and retaining talent. The hybrid working model is now established and occupiers are planning for peak occupancy with lower occupational densities.

Letting progress

The 163,000 sq ft of leases signed in 2022, with a combined annual rent of £9.8m, were agreed on average 13.0% above December 2021 ERV. As well as long leases, our letting activity included seven 'Furnished + Flexible' lettings – also at substantial premiums – bringing our total of these smaller units to 27 across 63,600 sq ft.



@SOHOPLACE THEATRE

The design and construction of Soho Place W1 is a technological tour de force. The scheme incorporates Soho's first new theatre for 50 years and public realm, in addition to 209,000 sq ft of best in class offices. Founded at the intersection of the Elizabeth line, it embodies Derwent London's commitment to great design and a bespoke response to the uniqueness of place.

Resulting from the site's constraints and intended uses, 2-4 Soho Place is in fact four separate but connected buildings: the theatre, the auditorium, the rehearsal hall and the three floors of offices above.

Each structure requires its own access and steel frames, resting on acoustic anti-vibration rubber mounts.

These serve to isolate them from the four underground storeys of concrete and infrastructure.

Adding to the challenge, this underground structure is perforated by a complex geometry of escalators and tube tunnels, plus a pocket tower of ventilation fans rising six storeys high which can generate as much noise as a 747 on landing.

Activity has accelerated in 2023 with 10 new leases agreed totalling £14.7m of rent, 7.7% above December 2022 ERV on average. The two key transactions are:

- **PIMCO (the investment management company) has pre-let 106,100 sq ft at 25 Baker Street W1** at a rent of £11.0m, well above December 2022 ERV on a 15-year lease with no breaks (commercial element 56% pre-let/sold ahead of completion in H1 2025); and
- **Buro Happold (a global engineering consultancy) has leased 31,100 sq ft at The Featherstone Building EC1** at a rent of £2.3m in line with December 2022 ERV on a 15-year lease with a break at year 10.

We are in detailed negotiations with a number of other occupiers across the portfolio.

New leases signed in 2022 had a weighted average unexpired lease term to break (WAULT) of 5.7 years and our 'topped-up' WAULT at year end was 7.2 years. This will increase with post-year end activity and we see good demand for both long and short-term leases. Our tenant retention rate remains high, and 79% of space subject to break or expiry in 2022 was retained or re-let.

Completion of The Featherstone Building EC1, Soho Place W1 and other smaller refurbishments led to an increase in our EPRA vacancy rate to 6.4%, from 1.6% at 31 December 2021. Following lettings in 2023, proforma vacancy would reduce to 5.0%.

Property valuations

Portfolio ERV growth was 1.3% in 2022, in the middle of our guidance range. However, there was a broad range of outcomes.

Buildings with a capital value above £1,000 psf saw ERVs up 2.5%, while those below £1,000 psf saw ERVs up 0.3%, the latter often being the raw material for future regeneration.

The portfolio's true equivalent yield increased 38bp in 2022 to 4.88%, a level last seen in 2014. Yields moved down 4bp in H1 and up 42bp in H2. Our portfolio outperformed the market with a total property return of -3.4% compared to the MSCI Central London Office Index down 8.0%, endorsing our strategy of keeping our recently completed high quality buildings for longer.

The outward yield shift resulted in underlying values reducing 6.8% in the year and a revaluation deficit of £430.9m (including share of joint ventures).

CHIEF EXECUTIVE'S STATEMENT continued

Market overview

London office investment volumes totalled £11.2bn, 12% higher than in 2021, but this was 71% weighted to the first half. There was a significant pause in Q4 which comprised just 6% of the annual total.

London is recognised as a leading global city which appeals to a diverse range of businesses. Many sectors continue to grow and expand in the capital, including professional services, artificial intelligence (AI), fintech, education and life sciences.

London office take-up reached 12.3m sq ft in the year, evenly split between H1 and H2, up 29% from 2021 and in line with the 10-year average. The West End outperformed the City with take-up 23% above the 10-year average at 4.9m sq ft, while the City was in line at 5.1m sq ft.

We have seen an acceleration in the number of companies committing to moving from outer London to the centre, particularly in the West End.

Following an increase in 2020 and 2021, central London vacancy reduced slightly but remains elevated at 8.2%. Looking in more detail, there are two notable trends. First, vacancy is not evenly spread. West End vacancy at 3.7% is in line with the 10-year average while in the City it is nearly double its long-term average at 11.9%. Secondly, the availability of prime space is very constrained, with 64% of supply being secondhand including tenant-controlled space.

There is increasing occupier focus on the overall service and amenity offering. As well as the amenity provided within our individual buildings, all our occupiers are given exclusive access to shared lounges at DL/78 and DL/28 (due to open in Old Street in Q4 2023). These offer a shared space in which to work, meet and socialise, as well as bookable meeting rooms, private hire space and events.

Strong balance sheet with low leverage

Despite a volatile market backdrop, 2022 was an active year for capital recycling. We invested £133.0m on acquisitions and £121.8m in capex (including capitalised interest), and were pleased to sell several non-core assets above book value for £206.4m (excluding trading properties), with a further £53.6m sold in 2023. We have now made disposals of more than £700m since the start of the pandemic three years ago.

Our balance sheet remains very strong with high interest cover of 423% for the year and low EPRA LTV of 23.9% at 31 December 2022. We also have a strong liquidity position with cash and undrawn facilities at year end of £577m (excluding restricted cash).

The Group has no current exposure to market interest rates, with 100% of borrowings at fixed rates. Our average interest rate is 3.14% on a cash basis. We have little to refinance in the near-term, with our first maturity being an £83m 3.99% secured facility in October 2024. The average maturity of our drawn debt is 6.2 years.



DL/78.Fitzrovia W1

OUR APPROACH TO FLEXIBLE OFFICE SPACE

We recognise there is increasing market demand for more flexible real estate solutions and understand the importance of delivering the right product for the sub-market in line with occupier demand. Our response has been to make a range of different options available to our customers:

- **Flexibly designed space** – Our 'long-life, low carbon' approach means that our spaces are designed to be adaptable to the varying needs of a diverse range of occupiers.
- **'Furnished + Flexible' workspace** – This is our fully furnished product which is ready for quick and seamless occupation and is let on flexible lease terms. Currently totalling 63,600 sq ft, with a further 34,100 sq ft on site or committed, we will continue to convert more of our smaller units, typically less than 10,000 sq ft, to fully furnished as and when they become available.
- **Shared amenity space (DL/Lounges)** – Becoming an occupier in our portfolio gives our customers (our 'members') exclusive access to our shared amenity hubs (DL/78 and soon to be DL/28), offering a curated environment in which to work, meet and socialise, as well as meeting rooms and private event space. During 2022 we had 7,500 customer visits at DL/78.
- **Flexible office providers** – We lease space to several third-party serviced office providers across 177,000 sq ft of area within our portfolio, which provide our occupiers with the ability to sign up to additional amenities and workspace to meet changing space requirements.

[READ MORE](#) / [See page 24](#)

Developments and refurbishments

At year end, our portfolio was split 57% 'core income' and 43% 'future opportunity'. We continue to deliver best in class space that meets the evolving requirements of our occupiers. In 2022, we completed three substantial projects delivering an average 27% profit on cost at practical completion. We are on site at two major projects, 25 Baker Street W1 (298,000 sq ft; commercial element 56% pre-let/sold) and Network W1 (137,000 sq ft; speculative), both due for completion in 2025.

We have submitted a planning application for a c.240,000 sq ft scheme at our 50 Baker Street W1 50:50 joint venture with Lazari Investments, and are refreshing our planning for Holden House W1 (c.150,000 sq ft).

We are working on longer term plans for Old Street Quarter EC1 which has potential for a 750,000+ sq ft mixed-use campus. Our acquisition of the site for £239m is expected to complete from 2027. In addition, we are planning to increase the volume of major refurbishment projects in the coming years where we see the opportunity to substantially raise ERVs reflecting increased quality, energy efficiency and sustainability credentials.

In 2022, build cost inflation rose to c.11% but is now settling and is expected to moderate in 2023 and 2024. As previously outlined, at 25 Baker Street we have fixed 97% of the office element build costs (c.80% of overall) and we are close to agreeing the contract sum at Network.

Sustainability

We made good further progress in 2022 reducing energy consumption and thus operational carbon. Energy intensity across our managed portfolio fell 4% year-on-year to 123 kWh/sqm, a 22% reduction compared to our 2019 baseline, ahead of our science-based targets for the third consecutive year. This resulted in a 7% reduction in the operational carbon intensity across our managed portfolio to 31.4 kgCO₂e/sqm.

At our projects, we account for 100% of the embodied carbon in the year of completion, at which point any residual is offset using high quality, verified schemes. In 2022, we completed two major developments (412,300 sq ft), one large refurbishment (38,200 sq ft) and several small refurbishments. The weighted average embodied carbon intensity for the major projects was 589 kgCO₂e/sqm. This is below the target set by the Greater London Authority (GLA) of ≤600 kgCO₂e/sqm.

While our regeneration activity leads to the creation of embodied carbon, a project can take four to five years to deliver and the building will have an extended design life of over 60 years. In addition, the buildings are designed to be more energy efficient, and thus generate lower operational carbon in use, with maximum future flexibility and adaptability.

We were pleased to receive resolution to grant planning consent for a c.100-acre, 18.4MW solar park on our Scottish land which we expect will generate more than 40% of the electricity needs of our London managed portfolio.

At 31 December 2022, our portfolio was fully compliant with forthcoming changes to EPC legislation which require a rating of E or higher. These rules are due to become stricter in 2027 with a minimum rating of C or better. From 2030, it is expected that there will be a further change to a minimum of B. Including on-site projects, our portfolio is 85.7% 2027 compliant by ERV (2021: 78.9%) and 65.3% 2030 compliant (2021: 61.0%).

In 2021, we commissioned a third party report that identified c.£97m of works to achieve 2030 EPC compliance across our London commercial portfolio. This has since been updated to c.£107m reflecting the latest scope and 2022 cost inflation. Following the sale of 19 Charterhouse Street EC1 in January 2023, the figure reduces to c.£99m. Our external valuers have made a specific deduction of c.£58m for identified EPC works across the portfolio, plus further amounts for general upgrades on assumed vacancies.

Recognising employee performance

We were delighted to recognise high performance with 17 internal promotions in 2022, including four new appointments to the Executive Committee. Philippa Davies, Head of Leasing, joined the Committee from 1 July 2022 and there were a further two appointments with effect from 1 January 2023: Katy Levine, Head of Human Resources; and Robert Duncan, Head of Investor Relations and Strategic Planning. Executive Committee member Jay Joshi was also promoted to Group Financial Controller from Group Treasurer.

Outlook

We expect average ERV growth across our portfolio in 2023 of 0% to +3%, with our higher quality properties continuing to outperform. We anticipate rental growth accelerating for the best buildings over the medium-term, particularly in the West End.

The ongoing weight of global capital looking to invest in London, combined with the recent reduction in volatility across financial markets, is encouraging. This is supported by London's attractive yield relative to other European cities. Upward pressure on yields is easing and we expect our portfolio to be more resilient than the wider London office market.

Derwent London has a well-positioned portfolio, delivering the right product to meet diverse occupier demand. We have an exciting regeneration pipeline and the balance sheet capacity to take advantage of acquisition opportunities that may emerge.

PAUL WILLIAMS
Chief Executive



The Featherstone Building EC1

FOCUSING ON THE FUNDAMENTALS

DESIGN-LED DEVELOPMENT

Design excellence has always been at the core of our thinking when it comes to providing our customers – the occupiers of our workspace – with the very best places to work.

It is only through the pursuit of design excellence that our buildings can succeed in attracting discerning occupiers. In turn, these desirable workplaces support our customers in attracting and retaining the best talent whilst providing them with an environment that fosters collaboration and productivity.

We strive to create spaces that inspire creativity, promote collaboration and drive productivity, whilst being truly sustainable – in other words – **“Distinctly Derwent”**.

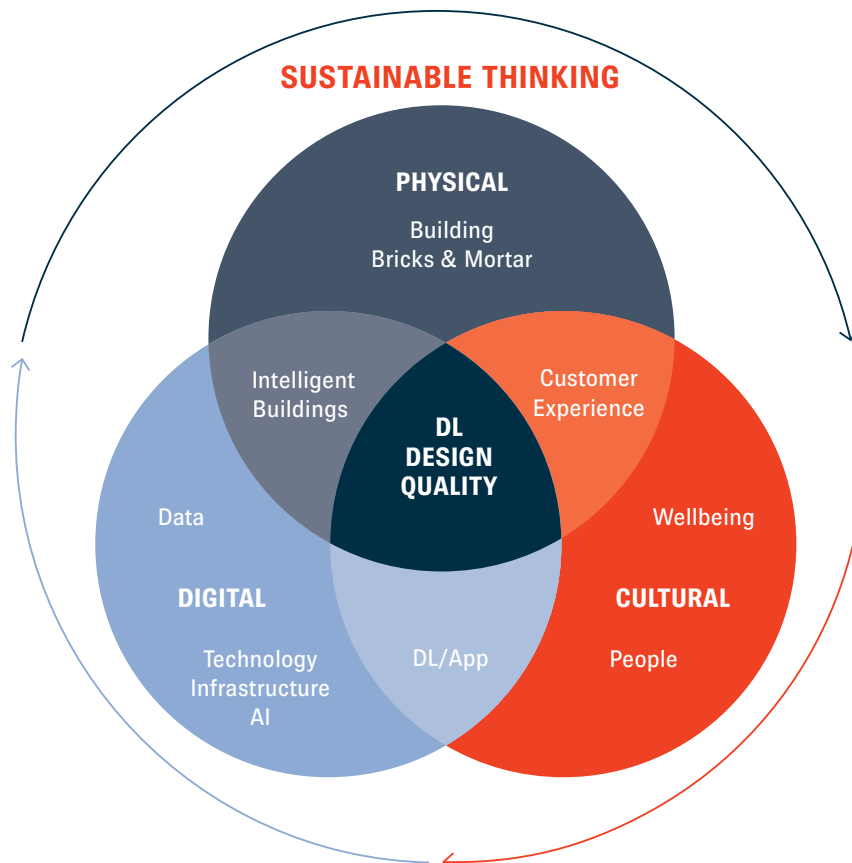
Our mantra is ‘long-life, low carbon’. Our approach to sustainable thinking is comprehensive, as illustrated by the diagram below. It incorporates the physical attributes of a building with the integration of digital innovation and considers the overall impact on people and the environment. With this approach, we aim to achieve the optimum design solution – providing ‘quality and delight’.

Important in our approach to design are influences and inspiration from the past, including learning from the modernist masters of the early 20th Century: Mies Van Der Rohe, Le Corbusier and Louis Kahn among others. Equally important is our desire to seek out innovation and future thinking, whether in new low carbon recycled materials, new construction techniques or the intelligent systems within our buildings.

Our design-led approach, alongside our customer focus and extensive understanding of occupier needs, ensures our product is well positioned to capture London’s diverse demand.

➤ PIPELINE / See page 12

Through thought leadership we endeavour to deliver design excellence with every scheme, always pushing the boundaries and disrupting the accepted norms of the market.



We work through the complex challenges of architectural design, engineering and materiality (the ‘physical’), integrating technology and intelligent systems (the ‘digital’) with aspects of health, wellbeing and socialisation (the ‘cultural’).

FOCUSING ON THE FUNDAMENTALS

OCCUPIER-FOCUSED SOLUTIONS



We understand there is more to creating a successful workspace than just the physical bricks and mortar. Offering a high quality service and building strong, long-term relationships with our occupiers is key to everything we do and fundamental to our ongoing business strategy.

Occupiers are becoming ever more discerning, so understanding and pre-empting the changing needs of our audience is crucial. Throughout this collaborative journey, we have developed a bespoke and exclusive membership package which all Derwent London occupiers can fully enjoy.

“We have been impressed with the beautiful space and fantastic team at DL/78. Our staff members often seek out the comfortable surroundings for quiet focus work or private meetings away from our nearby offices on Whitfield Street.”

BEA KERLIN

SINE Digital at 43 Whitfield Street W1

Employees of our occupiers across the portfolio automatically receive membership and complimentary access is provided to:

Community spaces at DL/78 in Fitzrovia and the forthcoming DL/28 in Old Street

- DL/78, our first members' lounge, was launched in October 2021 for the exclusive use of Derwent London members as a place to connect and collaborate. Following its success, we are opening a second lounge, DL/28, in Old Street in late-2023.

DL/App

- The DL/App provides a digital space for our member community to meet, while enabling a number of features and benefits: tap-through access to DL/78, third party exclusive discounts and booking facilities for events and DL/78 meeting rooms.

Experience team

- Derwent London members have access to a dedicated Experience team focused on ensuring the best experience for all those occupying our buildings. They organise and host a diverse and inclusive line-up of events throughout the year across our portfolio.

Bridging the gap between the physical and digital landscape, these benefits provide market-leading, innovative, high quality and value-add amenity. Having the ability to communicate directly with occupiers at all levels, we are building a thriving community across a broad demographic.

Our customer and member-centric approach is also focused on reimagining the traditional relationship between landlord and occupier. Our aspiration is to break the barrier of anonymity. Through offering a personalised service we strive to encourage loyalty and drive retention, which over time we expect will contribute to structurally lower portfolio voids.

As our occupiers grow, we want them to grow with us.





FOCUSING ON THE FUNDAMENTALS

NET ZERO CARBON

Derwent London began its journey to become net zero several years ago. In July 2020, we formalised this intention with the publication of our Net Zero Carbon Pathway. The Group’s commitment covers carbon emissions from all activities and across Scopes 1, 2 and 3:

- Operational carbon from landlord and occupier energy and water consumption, as well as our corporate activities (Scopes 1, 2 and 3); and
- Embodied carbon from new developments, refurbishments and managed fit-outs (Scope 3).

To achieve our goal, we need to reduce energy consumption and associated greenhouse gas (GHG) emissions in line with a science-based 1.5°C climate warming scenario.

Our targets require a 4% annual reduction in the energy intensity of our managed portfolio to 108 kWh/sqm in 2027, and 90 kWh/sqm by 2030. When compared to our 2019 baseline, energy intensity in 2022 has reduced 22% to 123 kWh/sqm which is ahead of target.

We are in a strong position to engage with our occupiers to support them in achieving their own sustainability aspirations, whilst reducing energy consumption across our investment portfolio. Collaboration with occupiers and the wider supply chain is essential to achieve collective success.

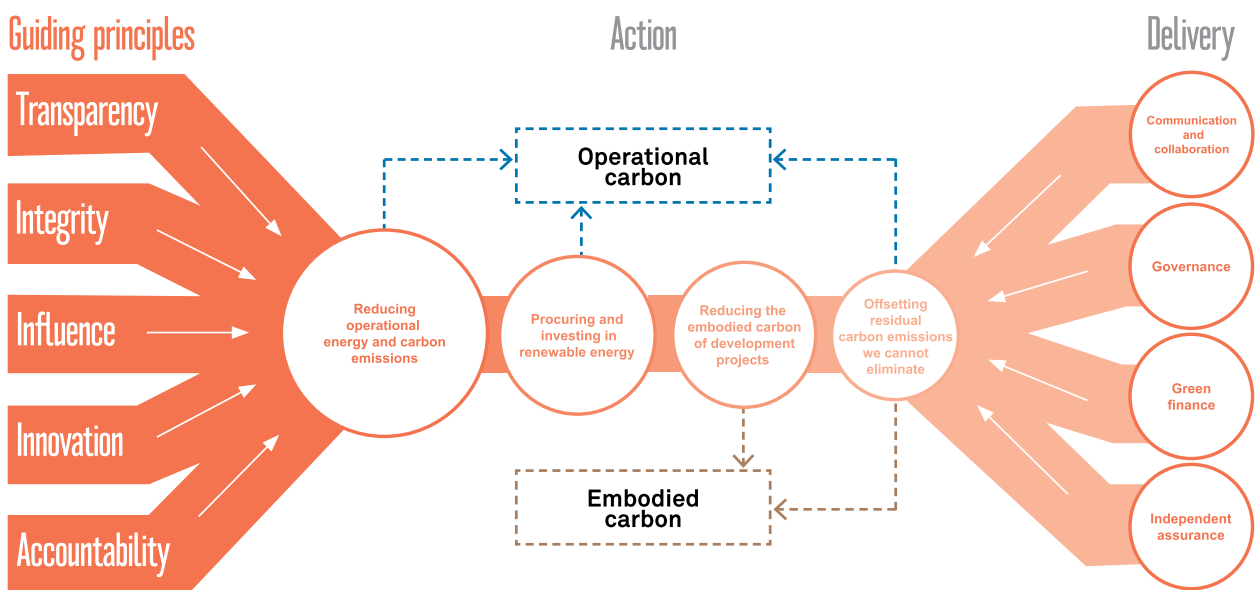
A critical part of our pathway is investment in the generation of additional renewable energy. In 2022 we received resolution to grant planning consent for an 18.4MW solar park on c.100 acres of our Scottish land at Lochfaulds which is expected to produce in excess of 40% of the electricity needs of our London managed portfolio upon delivery.

Regeneration is at the core of our business model, through refurbishment (retrofitting) or development. Reducing the associated embodied carbon is essential. We have set a two-stage target for our Commercial Office New Build developments, aligned with the GLA’s aspirations, for schemes completing from:

- 2025: ≤600 kgCO₂e/sqm
- 2030: ≤500 kgCO₂e/sqm

Where we cannot eliminate residual emissions, we have committed to offset these through verified schemes.

We are making good progress on our journey to net zero, with performance ahead of target for key metrics.



FOCUSING ON THE FUNDAMENTALS

A DYNAMIC & INCLUSIVE TEAM

One of our core strengths is creating and encouraging inclusive team dynamics. Ensuring that every employee has the opportunity to put their knowledge and skills to use, is engaged and feels valued, is important to us. We know that diverse teams are smarter. However, we also appreciate that inclusion means more than just having a seat at the table. We seek to give our people a voice and to make sure that voice is heard, by empowering our employees to lead presentations, chair meetings, share ideas, challenge the status quo and participate in constructive dialogues.

Our people respect each other and work collaboratively across teams towards a common purpose, providing mutual support, brainstorming ideas and listening to others. We make it clear from the outset that we want everyone to be able to bring their authentic selves to work and to treat each other fairly and respectfully. For this reason, when it comes to diversity and inclusion we go beyond the traditional attributes, such as gender and ethnicity, and include individuals' personality, communication and work styles. Our work on diversity and inclusion within the business enabled us to achieve the National Equality Standard accreditation in 2021 and we have continued to embed this in our culture through various training programmes (such as unconscious bias, inclusive leadership and disability awareness) and other initiatives such as the 10,000 Black Interns programme.

Our Directors operate an 'open door' policy, facilitating regular, two-way communication. Monthly CEO-led town hall meetings provide a forum for teams to update the business on projects, focus areas and initiatives which help ensure communication channels remain open and our activities and strategy are clear. We host technical workshops for company-wide knowledge sharing and biennial staff awaydays, involving motivational guest speakers and team activities, where employees are encouraged to work with and get to know their colleagues in an informal environment.

In addition, the Derwent London Social Committee arranges a variety of inclusive and fun events on a regular basis to provide opportunities for networking and relationship building.

We recognise that diversity enriches our creativity and adds value for our stakeholders.



Staff awayday 2022

STAFF SURVEY

84%

agreed

2021: 82%

“Derwent London is an inclusive place to work.”

88%

agreed

2021: 87%

“I would recommend Derwent London as a great place to work.”

91%

agreed

2021: 94%

“I am proud to work for Derwent London.”



Derwent London Staff



Brunel Building W2

FOCUSING ON THE FUNDAMENTALS

STRONG CAPITAL MANAGEMENT

We have always taken a disciplined and long-term approach to capital management. This starts with maintaining conservative levels of leverage, with generous interest cover being our key focus, in order to meet our financial obligations. This focus has ensured the business has remained resilient through many economic cycles.

We partner for the long-term with a diverse group of lenders. Flexibility is key so we use a combination of flexible revolving bank facilities, which give us the ability to draw down funds as we need them, balanced with longer-term fixed rate debt that provides robust future visibility and protection against interest rate fluctuations.

Maintaining substantial headroom under our facilities is a vital part of our approach. This provides us with the liquidity to move quickly when opportunities arise and comfort that we have the financial capacity to deliver our committed developments. Our regular internal business forecasts give us visibility on future funding needs so we can plan cash flow requirements well ahead.

Disciplined recycling of capital through disposals enables us to generate returns through the execution of a development programme whilst keeping our debt levels conservative.

In our ongoing commitment to sustainability, we operate our Green Finance Framework (GFF). This has been developed to demonstrate how the Group uses Green Financing Transactions to fund projects that will deliver environmental benefits, which is in line with our business strategy and purpose.

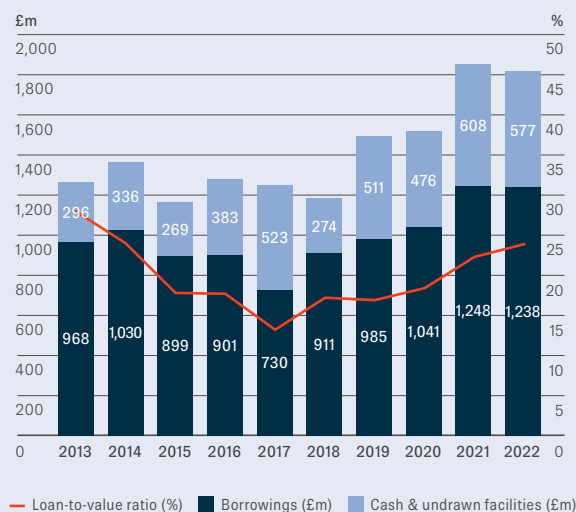
We recognise that dividend income is important to our shareholders. Our policy is to pay a progressive dividend which is well covered by EPRA earnings.

Our financial discipline helps ensure the business remains robust throughout property and economic cycles.



Tenant fit-out at Brunel Building W2

Borrowings, gearing and financial headroom



“HSBC has a long-established relationship with Derwent London having helped arrange a number of the Group’s financing transactions over many years. This includes supporting them on their green financing journey with their Green RCF in 2019 and their Green Bond issuance in 2021.”

DANIEL HATHAWAY

Relationship Director, Large Corporates, HSBC

CENTRAL LONDON OFFICE MARKET

Occupational market

Letting activity in 2022 was in line with the 10-year average. The flight to quality is well established and gathering pace, with nearly 80% of take-up being of new or good quality space, while availability of secondary remains elevated, in part due to heightened occupier focus on sustainability credentials. The constrained development pipeline, alongside occupiers being focused on high quality buildings in more central locations, is leading to an increase in pre-letting activity. Together with limited prime supply, we see good reason for rental growth on higher quality buildings.

Central London take-up of 12.3m sq ft was 29% higher than in 2021 reflecting continued re-engagement by businesses with longer term occupational strategies. This was focused on best quality product, with 39% of the total being new (including pre-lets) and 40% was Grade A secondhand. In the West End 4.9m sq ft of space was leased, up 36% year-on-year and 23% ahead of the 10-year average. In the City, take-up of 5.1m sq ft rose 33% compared to 2021, in line with the 10-year average.

Availability remains elevated across central London, with vacancy of 8.2% down 0.4% on the prior year, but this average masks a significant divergence between the West End and City. Strong demand in the West End led to a 1.1% decline to 3.7% (10-year average 3.4%). City availability also reduced, but by only 0.3% to 11.9%, nearly double the 10-year average (6.4%).

The amount of available secondhand space nearly doubled at the start of the pandemic to a peak of 19.2m sq ft at Q1 2021 and finished 2022 at 16.4m sq ft. The volume of tenant-controlled space remains high at 28% of total availability. Overall secondhand availability remains elevated at 64% of the total, but this compares to a peak of 77% at Q1 2021.

Knight Frank estimate that there will be an 11m sq ft supply shortage of best quality buildings over the next four years, assuming normal levels of annual take-up. The committed central London development pipeline between 2023 and 2025 totals 12.7m sq ft with 71m sq ft scheduled to complete in 2023 of which 28% is pre-let or under offer. Deliveries in 2024 and 2025 are significantly below historic levels.

Businesses with large space requirements over the medium-term are engaging at an increasingly early stage of development in order to secure space that meets their requirements. Pre-lets comprised 24% of total take-up in 2022 and accounted for the nine largest transactions. We are also seeing signs of recentralisation with demand more focused on central and well-connected locations.

London is well recognised as a leading global city with broad appeal to a diverse range of occupiers. The key sectors taking space in 2022 were banking & finance (28%), and professional and creative industries (17% each). This diversity is also seen in the active demand figures, with banking & finance, business services and creative industries together accounting for 71% in total.

Businesses continue to adjust to more hybrid solutions but whilst working patterns may have changed, the power and function of the office seems to be more understood now than ever. Occupiers are making decisions based on peak occupancy with lower occupational densities, whilst also ensuring it is the right space to support their talent and overall business productivity.

Our experience is that long leases remain important for large occupiers given high fit-out costs and business continuity. For pre-lets, pre-completion expansion/contraction options are becoming more common. For smaller occupiers and in particular those in high growth mode, shorter leases provide the flexibility they need to adapt their real estate to their rapidly evolving requirements.





Sustainability credentials, high quality design, amenity, customer service and experience all remain high on the agenda for occupiers when it comes to making real estate decisions. That is why we focus on delivering best in class, design-led and sustainable buildings.

Macro backdrop

2022 was characterised by a spike in global inflation, a rapid increase in borrowing costs and a cost of living crisis in the UK. Towards the end of the year, inflationary pressures began to ease, partly driven by a reduction in both energy and food costs, which has led to expectations of a lower peak in interest rates than was expected at the height of the political and economic instability.

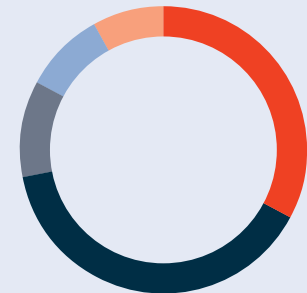
Following a strong post-pandemic bounce in 2021, UK GDP was 4.0% in 2022 albeit weighted to Q1. The latest forecasts from Oxford Economics and others are for both the UK and London to experience a short-lived and mild recession in 2023 as households and businesses respond to the increase in input costs from higher costs of materials and utilities, and interest rates. The economy is then expected to return to growth from 2024, with London to maintain its outperformance.

Job creation is an important indicator for London offices. Forecasts from Oxford Economics show a small contraction in the number of office based jobs in 2023, before a return to growth from 2024. These forecasts should be viewed, however, in the context of the last two years during which a combined c.280,000 net new office-based jobs were created.

The opening of the Elizabeth line, which has added c.10% capacity to London's rail transport network, has driven a surge in footfall around the central stations along the route. According to Transport for London (TfL) data, more than 100m journeys have already been made since opening and daily usage is above the expected level of c.600,000. Tottenham Court Road is now in the top five most used stations in the TfL network, with its usage increasing by more than 80% since launch. Approximately 41% of our portfolio is located in nearby Fitzrovia (including Soho Place).

Central London office stock

City	33%
West End	39%
Midtown	11%
Docklands	9%
Southbank	8%

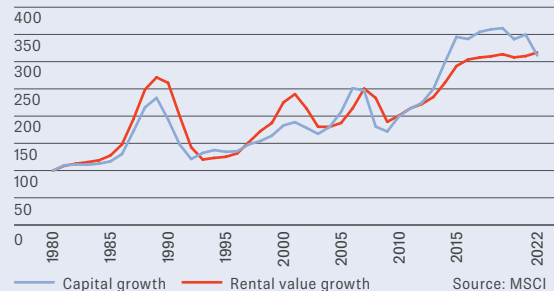


Source: CBRE

There is 235m sq ft of office space across central London. 72% is concentrated in the City and the West End (see chart). Our portfolio is principally in the West End and the Tech Belt. We have no buildings in the City core and Docklands, and only one building in Mayfair, the traditional heart of the West End.

London's office cycle

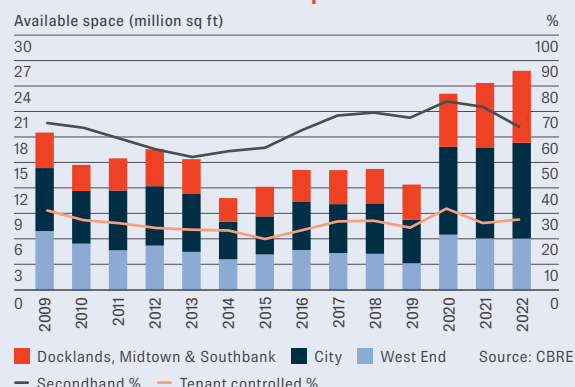
(1980=100)



Source: MSCI

London's office market had three major cycles between 1980 and 2009 (see chart), when strong growth was followed by a sudden decline. These events were typically associated with recessions and rising interest rates, often exacerbated by oversupply and distressed sales. Growth rates peaked in the current cycle in 2015 before stabilising until 2021. In 2022, the rapid rise in market interest rates linked to an inflationary spike caused yields to rise. Quality supply is constrained, however, and rents have risen, reducing the impact of yield expansion on capital values.

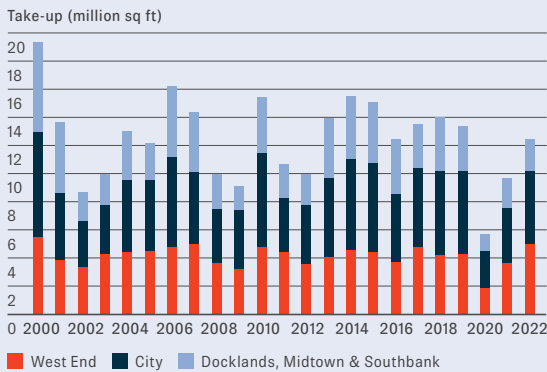
Breakdown of available space



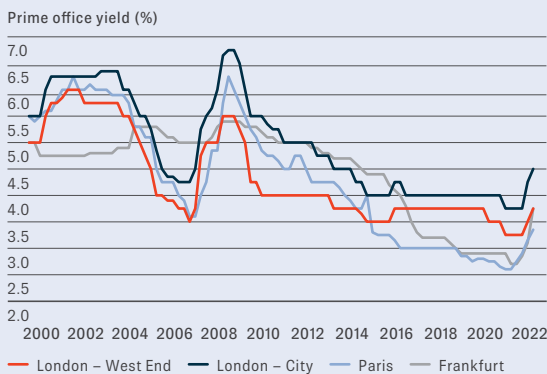
Overall vacancy in London remains high at 8.2%, down 0.4% in the year. There are two key trends. First, availability is concentrated in the City and Docklands which together comprise 57% compared to the West End at 24%. City vacancy is 11.9% (10-year average 6.4%) vs the West End at 3.7% (10-year average 3.4%). Secondly, supply is dominated by secondhand space at 64% of the total. In the flight to quality, secondhand space is sticking on the market for longer.

CENTRAL LONDON OFFICE MARKET continued

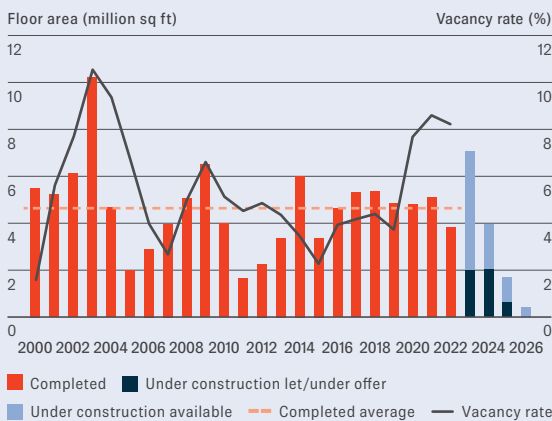
Central London office take-up



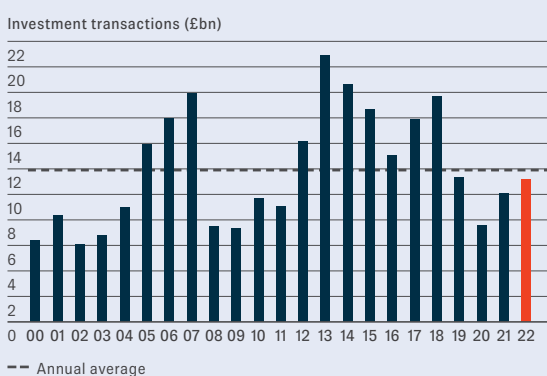
European yields



Central London development pipeline



Central London office investment transactions



Source: CBRE

Office occupancy rose through 2022 according to data from Remit Consulting, following an initial period of adjustment when work from home guidance was lifted in mid-January. West End office occupation has increased from c.10% to in excess of 45%. By contrast, occupation levels in the City continue to lag, reaching c.30% through Q4.

London remains an attractive place to live as well as to work. In 2022, the population rose by 1.2% to 9.5m and is forecast to increase to 9.6m in 2023. Over the longer term to 2035, the UN is forecasting an annual increase of 0.8% to 10.6m, an increase of more than 1m people over the next 13 years. This comes on the back of sustained growth since the early-1980s when the population was 6.7m.

Long-term capital remains attracted to London

London remains an attractive location for domestic and international investors and CBRE estimates there is c.£33bn of potential investment demand targeting London offices. The story of 'the best versus the rest' continues and investor appetite is polarised.

Well-located and high quality buildings with strong ESG credentials, let on long leases to strong covenants remain in demand as do those with potential for regeneration into prime. Investor appetite for secondary assets, however, is very limited and these are likely to underperform.

Investment activity for 2022 was £11.2bn, 12% above 2021 and in line with the long-term average of £11.4bn. Unsurprisingly, given the uncertain economic backdrop, investment volumes were low in the last quarter of the year, totalling just £0.7bn. Overseas capital dominated investment activity, accounting for 80% of all transactions, with investors from Asia the most active at 43%.

Underlying rates and credit spreads both increased significantly in the year with prospective investors appraising return requirements against the higher borrowing costs. Consequently, investment yields came under upward pressure through H2. The West End was more resilient than the City, with prime yields rising c.50bp to 3.75% compared to City yields up c.75bp to 4.5%.

The rise in yields combined with heightened risk awareness from credit providers is expected to present potential acquisition opportunities. Owners who are currently actively marketing assets for sale are primarily driven by a combination of upcoming refinancing events, future vacancy risk and EPC/upgrade capex requirements.

Vendor pricing expectations are being reset as transactional evidence starts to emerge and financial markets show signs of stabilising. In contrast to previous market corrections, both the development pipeline and the volume of debt maturing in the short-term are relatively low, which is expected to limit the magnitude of any market correction.

PORTFOLIO STATISTICS

CONTRACTED NET RENTAL INCOME

£204.2m

2021: £178.4m

ESTIMATED RENTAL VALUE¹

£304.6m

2021: £293.9m

EPRA NET INITIAL YIELD

3.7%

2021: 3.3%

TRUE EQUIVALENT YIELD

4.88%

2021: 4.50%

WEIGHTED AVERAGE UNEXPIRED LEASE TERM (WAULT)

6.4 years

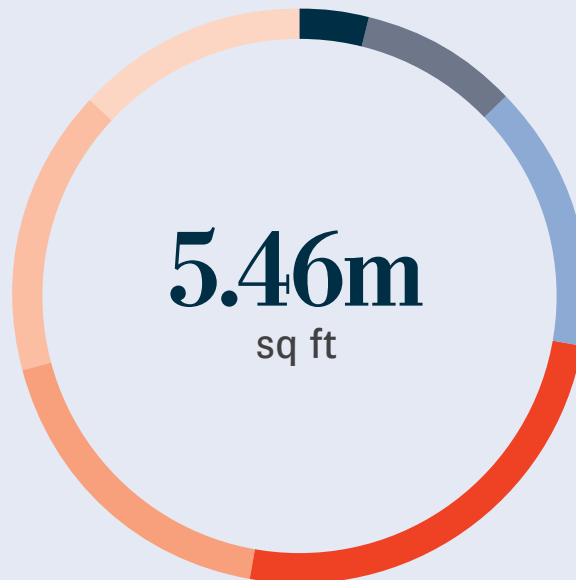
2021: 6.3 years

WAULT AFTER RENT-FREE AND PRE-LETS

7.2 years

2021: 7.8 years

Central London office rent 'Topped-up' income



■ £0-£30 per sq ft	4%
■ £30-£40 per sq ft	9%
■ £40-£50 per sq ft	15%
■ £50-£60 per sq ft	25%
■ £60-£70 per sq ft	18%
■ £70-£80 per sq ft	16%
■ £80+ per sq ft	13%

Ten largest tenants

	% of rental income ²
Expedia	7.5%
G-Research	5.2%
Public sector	4.7%
Burberry	4.6%
Boston Consulting Group	3.3%
The Office Group/Fora	2.6%
Arup	2.5%
FremantleMedia Group	2.2%
VCCP	2.0%
Apollo	1.9%

Tenant diversity

	% of rental income ²
Media	20%
Business services	18%
Online leisure	9%
Fintech	9%
Financial	8%
Retail head office	8%
Technology	7%
Retail & hospitality	7%
Public sector	6%
Flexible office providers	4%
Other	4%

¹ After additional capex of £330m.

² Based upon contracted net rental income of £204.2m.

OUR BUSINESS MODEL

DRIVEN BY

Vision

We craft inspiring and distinctive space where people thrive.

Purpose

We design and curate long-life, low carbon, intelligent offices that contribute to London's position as a leading global city, while aiming to deliver above average long-term returns for all our stakeholders.

Values

- **We build long-term relationships** with all our stakeholders
- **We lead by design**, crafting a brand of amenity-rich, well-designed, flexible and efficient buildings
- **We act with integrity** and foster an open and progressive corporate culture

Strong governance and risk management

➤ See pages 112 and 127

IMPACTED BY

Environment

The London office market and its wider context

➤ See pages 32 to 35

Assets and resources

Properties

➤ See page 10

Financial resources

➤ See page 98

People and relationships

➤ See page 59

The views of our stakeholders

Understanding their key issues through effective engagement

➤ See pages 8 and 130

HOW WE ADD VALUE

Core activities

ASSET MANAGEMENT

Understanding our occupiers helps us tailor buildings and leases to their needs thereby reducing vacancy, growing our income streams and adding value

➤ See page 91

REFURBISHMENT & DEVELOPMENT

Our focus on design, amenity and innovation creates sustainable and adaptable buildings characterised by generous volumes and good natural light with high quality amenities and wellness facilities

➤ See page 95

INVESTMENT ACTIVITY

We recycle capital, acquiring properties with future regeneration opportunities to build a pipeline of projects and disposing of those which no longer meet our investment criteria and forward return expectations

➤ See page 90

Strategic objectives



TO OPTIMISE RETURNS
AND CREATE VALUE FROM
A BALANCED PORTFOLIO

➤ See page 40



TO GROW RECURRING
EARNINGS AND CASH
FLOW

➤ See page 41



TO ATTRACT, RETAIN
AND DEVELOP TALENTED
EMPLOYEES

➤ See page 42



TO DESIGN, DELIVER AND
OPERATE OUR BUILDINGS
RESPONSIBLY

➤ See page 43



TO MAINTAIN STRONG
AND FLEXIBLE FINANCING

➤ See page 44

Outcomes

PRIORITIES

Annual priorities are
set for each strategic
objective

➤ See pages 40 to 44

RISKS

Risk management is
integral to the delivery
of our strategy

➤ See page 112

KPIs &
REMUNERATION

Success against our
objectives is measured
using our KPIs and
rewarded through our
incentive schemes

➤ See pages 45 and 190

VALUE CREATED

£29.6m

rent reviews, lease renewals and
lease regears agreed in 2022 on
516,900 sq ft

435,000 sq ft

on-site projects

8.8%

average annual ordinary
dividend growth over 10 years

8.8%

average annual total
return over 10 years

£474k

Community Fund plus amounts
committed by the Sponsorship
and Donations Committee
in 2022

Measured via our KPIs

➤ See page 45

OUR STRATEGY

Our strategy is well established and explains how we aim to fulfil our purpose for the benefit of all our stakeholders.

STRATEGIC OBJECTIVES

Successful implementation of our strategy requires our teams to work together with a shared vision and common values.

These include focusing on creative design and ensuring sustainability and responsibility are embedded in everything we do. We have fostered an inclusive culture that is progressive and hard-working, building a team passionate about improving London's office space.

This strategy is defined through our five strategic objectives:



TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO



TO GROW RECURRING EARNINGS AND CASH FLOW



TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES



TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY



TO MAINTAIN STRONG AND FLEXIBLE FINANCING

STAKEHOLDER FOCUS / See page 8

RISK MANAGEMENT

Risk management is an integral part of our business as we seek to achieve the appropriate balance of risk and return. The level of risk is monitored regularly and is split into categories considering the likely impact on strategy, operations, financial position and stakeholders. We take a long-term view on planning, risk mitigation and financial discipline as our projects may take many years to complete.

Preparation of an annual five-year plan helps us identify risks and opportunities. It enables us to anticipate and maintain a balance between income/dividend growth and value adding through higher risk projects, both now and into the future. It also helps us monitor our responsibilities to our various stakeholders. Long-standing relationships with our supply chain form an important source of value and help mitigate risk.

PRINCIPAL RISKS / See pages 116 to 123

EMERGING RISKS / See pages 124 to 125

PERFORMANCE MEASUREMENT & REMUNERATION

Key Performance Indicators (KPIs) help us measure our performance and assess the effectiveness of our strategy. These are listed on page 45 for each objective, but the three principal measures that we apply to ascertain overall business performance are shown below.

Total return (TR) – Combines our dividends with the growth in net asset value per share (measured using the EPRA NTA metric) to provide an overall return for the year, measured against a peer group.

Total property return (TPR) – Measures the income and growth in value from our properties, measured against an index of other relevant properties.

Total shareholder return (TSR) – Compares our dividends and share price movement with the relevant index.

These are the main performance measures we use to determine the majority of the variable elements of executive remuneration to ensure there is strong alignment between the interests of shareholders and our decision makers. There are also non-financial targets representing 25% of the potential bonus which measure our success in meeting ESG and climate change responsibilities and the needs of other stakeholders.

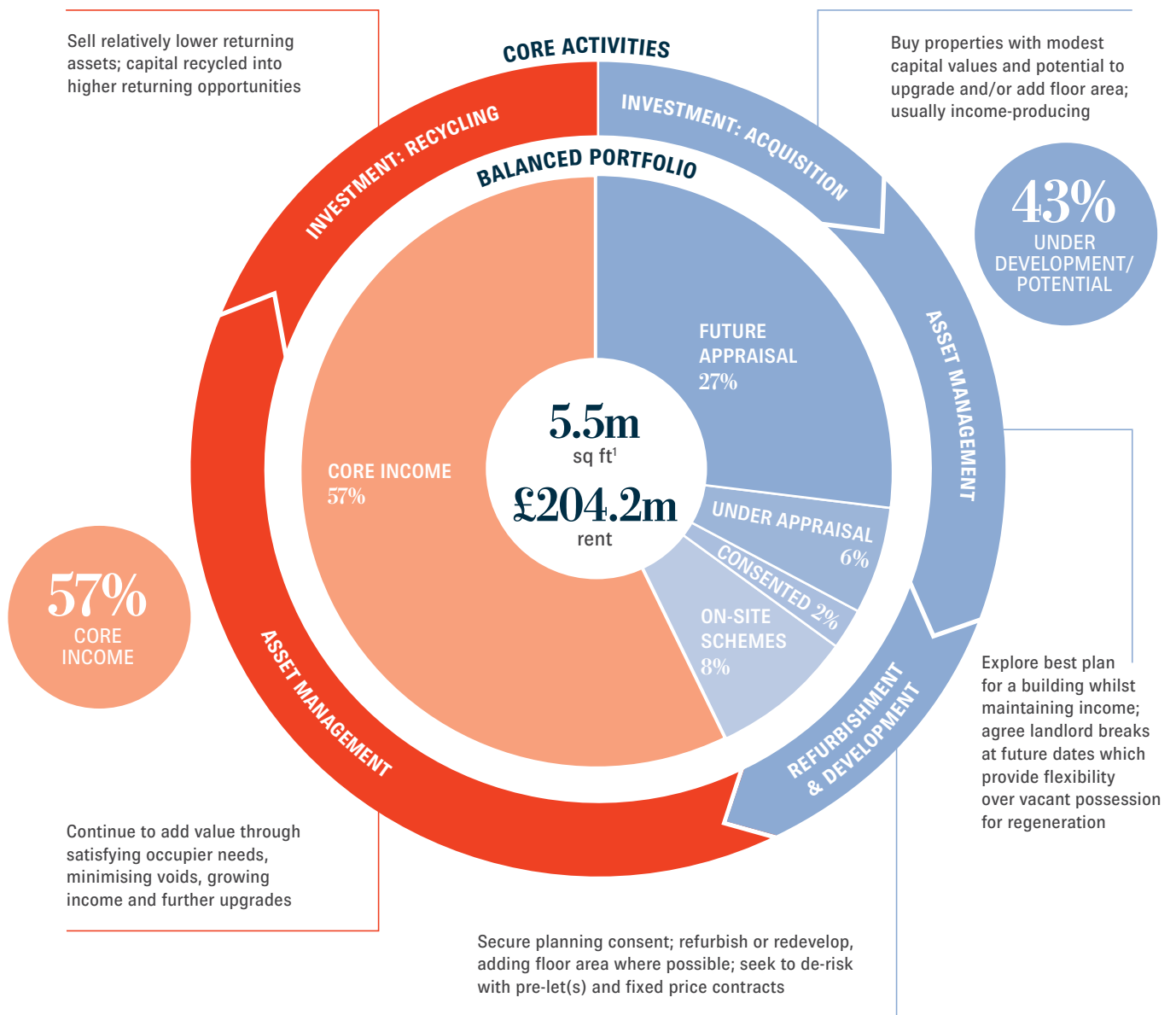
We apply our asset management and regeneration skills to the Group's 5.5m sq ft property portfolio using our people, relationships and financial resources to add value and grow income while benefitting the communities in which we operate and the wider environment.

At 31 December 2022, 43% of our portfolio (by floor area) was classified as either 'With Potential' or 'Under Development'. This portion of our portfolio represents buildings with potential to add further value through regeneration. This excludes the proposed major development at Old Street Quarter EC1 as our ownership is conditional on completion of a purchase contract which was signed in May 2022.

The remaining 57% are buildings where most of the repositioning activity has taken place but where our asset management skills can continue to grow income and value. This is the 'Core Income' portion of our portfolio.

Stakeholder, climate change and wider ESG impacts form key considerations in the strategy we pursue for each individual property.

HOW WE ADD VALUE



1 Comprises 5.02m sq ft of existing buildings plus 0.44m sq ft of on-site developments and on-site refurbishments.

OUR STRATEGY continued



TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO

We aim to optimise returns from a portfolio which is balanced between properties with potential to add further value through regeneration and those which have already been repositioned but where our asset management skills can continue to grow value and income. This balance is measured by reference to the 'Derwent doughnut' as set out on page 39 and is constantly changing depending on where we are in the property cycle and where individual properties are in their life cycle.

Having a pipeline of current and future projects is a key part of our strategy as returns generated from value-enhancing projects help us outperform our benchmarks (principally the MSCI Central London Office Index). These projects often take several years with profits derived from a combination of planning uplift, the regearing of leases and physical refurbishment or redevelopment.

We regularly review the portfolio to identify capital recycling opportunities which involves disposing of assets where we believe most of the upside has been captured or which no longer meet our investment criteria.

2022 PRIORITIES AND PROGRESS

Priorities	Progress
Complete development of Soho Place W1 and The Featherstone Building EC1 and let remaining space	● Both projects completed H1 2022. Soho Place is 87% let or sold. The Featherstone Building was 32% let at 31 December 2022, now 59% after further lettings
Appoint main contractor and progress the scheme at 25 Baker Street W1	● Laing O'Rourke was appointed in January 2022 and on-site works are on track to complete H1 2025
Commence on-site works at Network W1	● Demolition works are complete and the main contractor has been identified
Progress plans for Bush House WC2, 50 Baker Street W1 (50:50 joint venture) and Old Street Quarter EC1	● Crystallised development profits on Bush House by selling for £85m, and progressed designs for both 50 Baker Street and Old Street Quarter
Seek further opportunities within the portfolio to upgrade or reposition assets to maximise returns	● New architect appointed at Holden House W1 to refresh the scheme
Dispose of properties that no longer meet our investment criteria	● Sold New River Yard EC1 for £67.5m before costs and rental top-ups

Maintaining a balanced portfolio enables us to start schemes speculatively. However, we often look to de-risk projects by agreeing pre-letting terms with one or more tenants during the construction period. The momentum that this provides encourages us to consider the next phase of our project pipeline, adding further value where we see opportunities.

Given the inherent risk of development projects, we seek to balance these with 'core income' properties in the portfolio where the focus is on customer relationships and maintaining or growing income through active asset management. This enables us to achieve the appropriate balance of risk and return for the business.

43%

of assets 'Under development/potential' (by area) – see page 39

57%

of assets 'Core income' (by area)

Performance measures:

1 2 3 4 7 8 10

➤ KPIs / See page 45

Principal risks:

1 2 3 4 5A 5B 5C 6A 6B
6C 7 8 9A

➤ See page 116

Emerging risks:

B C F

➤ See page 124

2023 PRIORITIES

- Progress 25 Baker Street and Network and secure pre-lets
- Let remaining space at The Featherstone Building and Soho Place
- Progress planning applications for 50 Baker Street (joint venture) and Old Street Quarter
- Seek further opportunities within the portfolio to upgrade or reposition assets to maximise returns, increase our 'Furnished + Flexible' offering and explore Life Sciences possibilities



TO GROW RECURRING EARNINGS AND CASH FLOW

Property valuations are essentially determined by contracted and expected future cash flows combined with a market yield which takes account of risk, growth expectations, quality, environmental considerations and other factors.

Establishing the right strategy for a property can both add value and increase cash flow, but these may occur at different times of the property cycle. Value creation tends to occur first as expectations that rent will grow above its current passing level emerge, referred to as 'reversion', with an uplift in cash flow captured later on lease events such as rent reviews, lease regears and other forms of lease restructuring.

Using established relationships with occupiers, and with a focus on local communities and other stakeholders, our asset managers capture reversion by:

- working closely with our tenants and consultants to arrive at appropriate rent review outcomes;
- negotiating with our tenants to extend leases or remove break clauses;
- coordinating 'block dates' to gain possession of buildings when a scheme is planned;
- reviewing levels of 'grey' space, i.e. floor area that is let but which is not currently occupied or is being marketed by a tenant; and
- trying to anticipate our tenants' needs, thereby optimising income. Examples are fixed or minimum rental uplifts and a flexible approach to dilapidations and alienation clauses.

We believe that by creating the right space and providing our occupiers with the flexibility, adaptability and amenity they are increasingly looking for we can generate further rental growth in the future.

2022 PRIORITIES AND PROGRESS

Priorities	Progress
Continue to enhance amenity and customer experience across the portfolio	● Approval given to proceed with DL/28, our second customer amenity space, located in The Featherstone Building, and continued to develop our customer events programme
Retain and grow income by proactively managing voids and expiries while both extending and increasing income where viable	● Asset management activities on 516,900 sq ft delivered a 7.2% increase in rent to £29.6m. 79% income was retained or re-let on breaks/expiries. 163,000 sq ft of new lettings captured £9.8m of income
Look to upgrade existing stock where opportunities arise to maximise income	● Invested £20m of capex on smaller upgrade projects across the portfolio

1.1%

increase in like-for-like gross and net rental income in 2022

79%

tenant retention and reletting rate for 2022

Performance measures:

1 2 3 4 7 9 10

➤ KPIs / See page 45

Principal risks:

1 2 3 4 5A 5B 5C 6A 6B
6C 7 8 9A

➤ See page 116

Emerging risks:

A B C D E F G H

➤ See page 124

2023 PRIORITIES

- Deliver DL/28 and continue to build on our customer membership offering
- Proactively manage upcoming expiries/breaks and vacancies to retain or increase income where viable
- Look to upgrade existing stock where opportunities arise to maximise income

OUR STRATEGY continued



TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES

Our employees are vital to the successful delivery of our strategy and long-term business performance.

We are an inclusive and respectful employer that welcomes diversity and promotes equality. We have a high performing, progressive, collaborative and inclusive culture, coupled with a consultative and professional leadership style, focused on teamwork, integrity and long-term relationships.

Our employees are our brand ambassadors and we invest considerable time and resources in their development and growth. The Group enjoys a high rate of staff retention with 46% having been with the business for at least five years. When we recruit externally, we look for diverse, outstanding individuals who can bring creativity, skills and competencies to the business. There were 45 new employees onboarded in 2022, of which approximately half were new positions.

The Group's reputation stems from behaviours and values promoted by the Board and Executive Committee which are reinforced through our induction programme, performance management process, core skills workshops and our management and leadership training.

Our structure enables complex transactions to be managed effectively and decisions made quickly with the overall aim of creating value and driving income growth across our portfolio. Although we are organised by discipline, we assemble specific project teams from across the business to increase creativity and innovation.

We undertake an annual anonymous staff survey which achieves a high response rate (2022: 94%). The survey provides an important forum for staff to provide feedback to help us identify areas where we have made a positive impact and areas for future improvement.

We remain focused on embedding our diversity and inclusion ambitions throughout the business.

2022 PRIORITIES AND PROGRESS

Priorities	Progress
Further embed diversity and inclusion into the business	● Four interns completed the 10,000 Black Interns programme, five apprenticeship positions were created and Senior Management undertook inclusion training
Establish focus group to review staff survey results and put forward recommendations to the Executive Committee	● Employee focus groups reviewed key areas of the staff survey. The roll out of several new initiatives was approved, including the launch of our 'Smart Working' policy
Continue with health and wellbeing initiatives with a strong focus on mental health and work-life balance	● A varied health and wellbeing programme was rolled out which focused on both mental and physical wellbeing
Continue regular town hall meetings to retain high levels of communication and collaboration	● Monthly CEO-led town hall meetings continued with various internal speakers
Hold our third all employee company awayday	● Conducted third off-site employee awayday, with positive staff feedback

88%

overall employee satisfaction

91%

proud to work at Derwent London

88%

staff retention rate

Performance measures:

1 3 16

➤ KPIs / See page 45

Principal risks:

1 5B 6A 6B 6C 7 8 9A 9B

➤ See page 116

Emerging risks:

C D E G

➤ See page 124

2023 PRIORITIES

- Further embed diversity and inclusion, focusing on disability
- Maintain focus on future succession planning
- Provide further health and wellbeing initiatives
- Analyse 'pulse survey' results and take appropriate action
- Run fifth biennial employee survey (October 2023)



TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY

Delivering well-designed, adaptable, occupier-focused buildings is an integral part of our business model. We believe these buildings offer better long-term value for customers through more efficient occupation, reduce letting risk and void levels and command stronger rents, yields and values.

Setting high standards for design and environmental responsibility builds flexibility, longevity and climate resilience into our portfolio, both new schemes and the properties we manage.

To meet our target of becoming a net zero carbon business by 2030 (see pages 27 and 52 to 56), we must develop buildings that are increasingly energy efficient, powered by renewable energy and with very low embodied carbon footprints. Likewise, we must reduce our managed properties' reliance on

natural gas and further lower their energy consumption and associated operational carbon footprints.

Our approach to becoming net zero carbon is set out in further detail on page 27, together with our full TCFD (Task Force on Climate-related Financial Disclosures) disclosure on pages 72 to 85. A phased programme of works to upgrade EPC ratings to ensure compliance with evolving Minimum Energy Efficiency Standards (MEES) legislation in 2027 and 2030 has commenced.

We work with our stakeholder groups to ensure we are meeting their expectations and standards, as well as acting responsibly. This ranges from engaging with the local communities around our buildings, through using the best designers and contractors, to ensure our buildings meet the standards we set (see page 8).

We want to ensure our portfolio is fit for purpose over the long-term and continues to generate the returns we expect.

2022 PRIORITIES AND PROGRESS

Priorities	Progress
Progress asset-specific net zero carbon action plans, including future EPC requirements	● Phased EPC upgrade programme ongoing, aligned with asset management plans
Review and commence implementation of findings from net zero carbon occupier survey	● Occupier engagement strategy was established and positive responses were received
Progress our renewable energy and carbon offset projects on our Scottish land	● Resolution to grant consent secured for solar park
Continue to progress realigning our Science-Based Targets in accordance with emerging sector guidance	● Initial mapping exercise to rebase our target to 1.5°C scenario is complete and awaiting confirmation from SBTi
Continue to develop, refine and embed our approach to carbon accounting	● Internal workshops held to review ways to measure carbon impact (previously 'carbon accounting')
Implement recommendations from Chickenshed's review of our Community Fund	● Implemented recommendations from Chickenshed's Community Fund review to improve application process
Develop an approach to measuring our social value	● Work began with Envoy Partnership to formalise our approach to social value

65%

EPC A or B, including projects (by ERV)

-26%

reduction in managed portfolio energy usage since 2019 baseline (kWh)

-37%

reduction in operational carbon emissions (Scope 1, 2 and 3 excl. embodied carbon) since 2019 baseline (tCO₂e)

Performance measures:

1 3 11 12 13 14 15

➤ KPIs / See page 45

Principal risks:

1 5B 5C 6A 6B 6C 7 8 9A 9B

➤ See page 116

Emerging risks:

A D E F G H

➤ See page 124

2023 PRIORITIES

- Rebase our SBTi targets to 1.5°C scenario
- Convert occupier engagement into lower energy usage
- Progress EPC upgrade plans
- Align Net Zero Pathway with UK's Transition Plan Taskforce
- Further develop our carbon impact measurement approach
- Complete and implement new social value framework

OUR STRATEGY continued

● Achieved ● In progress ○ Not achieved



TO MAINTAIN STRONG AND FLEXIBLE FINANCING

We finance our business using equity and a moderate level of debt from a wide variety of sources. We are relationship-driven and value consistency and reliability with our lenders but we also look to be progressive and innovative.

Our overriding principle is one of modest financial leverage and generous interest cover, to balance the relatively higher risk attached to our regeneration schemes. Using a combination of unsecured flexible revolving bank facilities and longer term fixed rate debt (both unsecured and secured), we can adjust the level of drawn debt to our day-to-day requirements.

We aim to maintain considerable headroom under our facilities to enable us to move quickly when acquisition opportunities arise. This has a cost in terms of non-utilisation fees but demonstrates that cash flows can be funded without delay. It also reassures our management team and our stakeholders that the development pipeline is capable of being financed and delivered without overstressing the balance sheet.

We value long-term relationships with our lenders, valuing the stability and mutual understanding that this creates over an approach that seeks the very lowest funding cost.

2022 PRIORITIES AND PROGRESS

Priorities	Progress
Maintain or strengthen available facilities	● £100m Revolving Credit Facility with Wells Fargo extended by one year to 2027
Maintain sufficient headroom on financial covenants	● Interest cover remains strong at 423%; property income could fall by 65% before breaching the interest cover covenant. In addition, the Group has cash and undrawn facilities of £577m and the EPRA LTV ratio is low at 23.9%
Ensure, where reasonable, green finance is used to fund eligible green projects, and that the Green Finance Framework is consistently applied	● Green finance was used to fund £99.9m of qualifying green expenditure in the year, taking the cumulative total to £627.9m. All major developments in 2022 were eligible green projects, with the exception of Network W1 which will be elected as an eligible green project in 2023

Our financing model is based on the following principles:

- conservative financial leverage;
- a strong focus on interest cover to support our credit rating (Fitch issuer default rating of 'BBB+' with a stable outlook);
- borrowing from a diverse group of relationship lenders who understand and support our business model;
- managing the cost of debt but also looking to have significant protection against further interest rate rises and long average debt maturities;
- keeping structures and covenants simple and understandable and thinking ahead; and
- ensuring the Group's financing strategy supports and is consistent with our overall business goals.

This approach provides financial stability and helps us when considering issues such as going concern and viability statements.

OUR REIT STATUS

Derwent London plc has been a Real Estate Investment Trust (REIT) since July 2007. The REIT regime (see page 313) was launched to provide a structure which closely mirrors the tax position of an investor holding property directly and removes tax inequalities between different real estate investors. REITs are principally property investors with tax-exempt property rental businesses, but remain subject to corporation tax on non-exempt income and gains. In addition, we are required to deduct withholding tax from certain shareholders on property income distributions and, in 2022, £9.0m was paid to HMRC.

Performance measures:

1 3 5 6

➤ KPIs / See page 45

Principal risks:

1 2 3 4 5A 6A 6B 6C 7
8 9A 9B

➤ See page 116

Emerging risks:

B D H

➤ See page 124

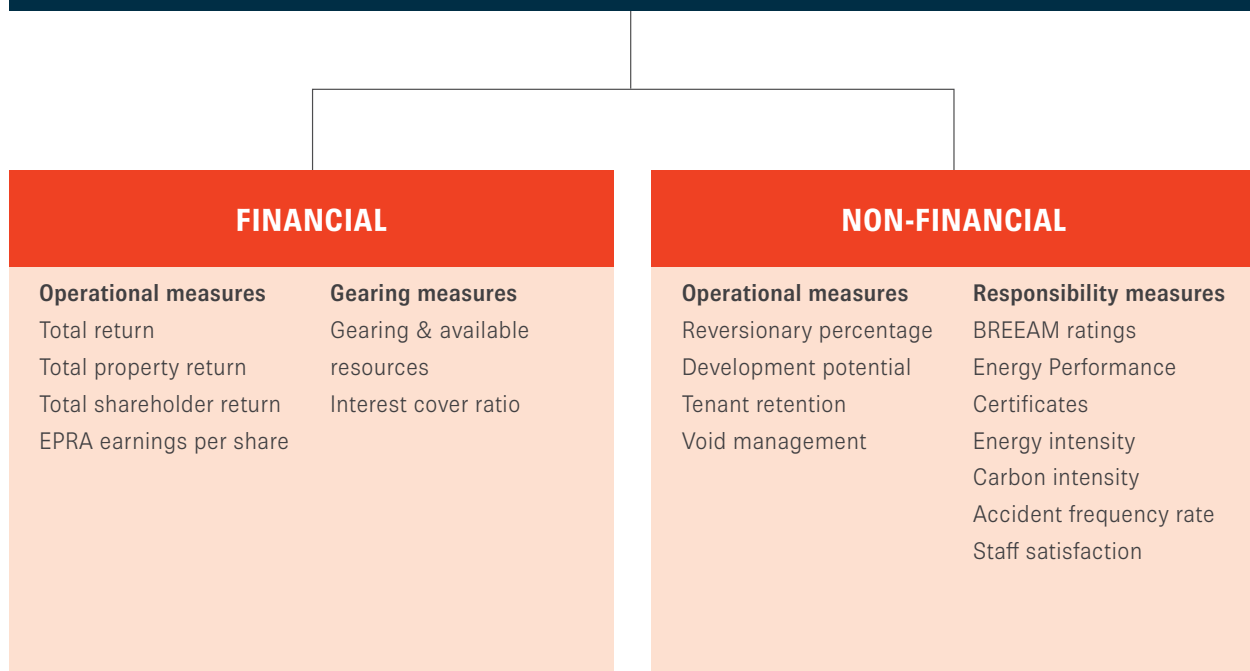
2023 PRIORITIES

- Maintain or strengthen available facilities
- Maintain sufficient headroom on financial covenants
- Review refinancing options for the £83m 3.99% secured loan due in 2024
- Continue to keep close to our existing relationship lenders

MEASURING OUR PERFORMANCE

We use a balance of financial and non-financial key performance indicators (KPIs) to measure our performance and assess the effectiveness of our strategy. They are also used to monitor the impact of the principal risks that have been identified and a number are used to determine remuneration.

KEY PERFORMANCE INDICATORS



Key to strategic objectives



TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO



TO GROW RECURRING EARNINGS AND CASH FLOW



TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES



TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY



TO MAINTAIN STRONG AND FLEXIBLE FINANCING

A Audited

A Assured

R Remuneration

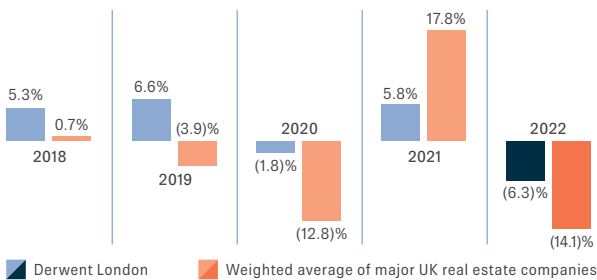
STRATEGY / See page 38

MEASURING OUR PERFORMANCE continued

FINANCIAL

1 TOTAL RETURN

Total return is EPRA NTA growth plus dividends paid during the year. Our aim is to exceed the average of other major real estate companies (our 'benchmark').



Our performance

Total return in 2022 was -6.3%, against a benchmark of about -14.1% based on current estimates.

Derwent London's average annual return of 1.8% over the past five years against a benchmark of -3.1% demonstrates the ability of our business model to generate above average long-term returns.

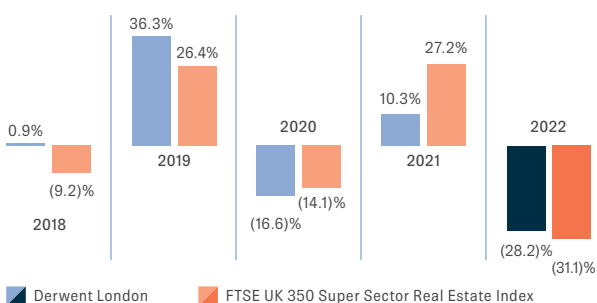
Strategic objectives

A **R**

3 TOTAL SHAREHOLDER RETURN (TSR)

This measures the Group's success in providing above average long-term returns to its shareholders.

We compare our performance against the FTSE UK 350 Super Sector Real Estate Index, using a 30-day average of the returns in accordance with industry best practice.



Our performance

The fall in the share price during the year resulted in a TSR of -28.2%. Despite this decrease, in 2022 the Group slightly outperformed its benchmark index.

£100 invested in Derwent London 10 years ago would, at the end of 2022, have been worth £140, consistent with the benchmark index.

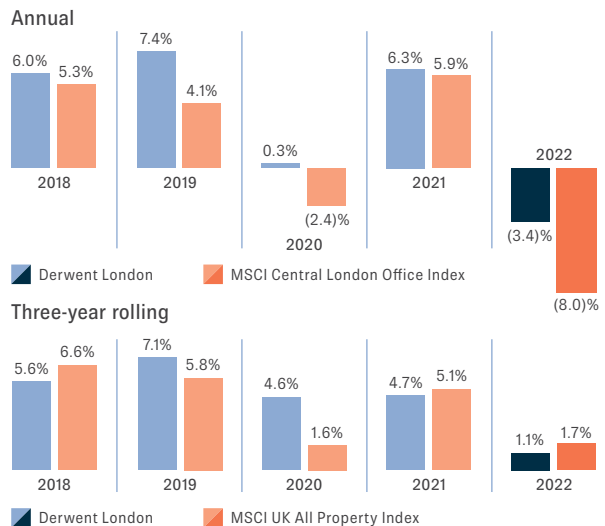
Strategic objectives

R

2 TOTAL PROPERTY RETURN

This is used to assess progress against our property-focused strategic objectives.

Our aim is to exceed the MSCI Central London Office Index on an annual basis and the MSCI UK All Property Index on a three-year rolling basis.



Our performance

Good progress on delivery and de-risking of projects has resulted in a 4.6% outperformance of MSCI Central London Office Index during 2022.

Derwent's three-year rolling average was 1.1% p.a., a 0.6% underperformance against the MSCI UK All Property Index. This was mainly due to the strength of the industrial sector in previous years.

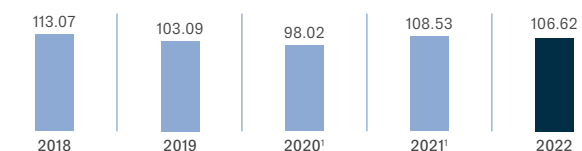
Strategic objectives

R

4 EPRA EARNINGS PER SHARE (EPS)

EPRA EPS is the principal measure used to assess the Group's operating performance and a key determinant of the annual dividend.

A reconciliation of this figure back to the IFRS profit can be found in note 40 on page 293.



Our performance

EPRA EPS fell 1.8% to 106.62p per share in 2022. Gross rental income was up in the year, mainly due to letting activity at newly completed developments, but this was offset by higher finance costs, and void costs incurred on the new developments. Additionally, the prior year benefitted from material one-off surrender premiums and other property income.

Strategic objectives

A


5 GEARING & AVAILABLE RESOURCES

The Group monitors capital on the basis of NAV gearing and the EPRA LTV ratio. We also monitor our undrawn facilities and cash, and the level of uncharged properties, to ensure we have sufficient flexibility to take advantage of acquisition and development opportunities.

	2021	2022
EPRA LTV ratio	22.3%	23.9%
NAV gearing	28.2%	30.8%
Cash and undrawn facilities	£608m	£577m
Uncharged properties	£4,769m	£4,600m

Our performance

Cash and undrawn facilities, which excludes restricted cash (tenant deposits and service charge balances), remained high at £577m, with our revolving bank facilities fully undrawn at the year end. The fall in property valuations has led to a slight increase in the NAV gearing and LTV ratios, but both remain at low levels.

Strategic objectives 

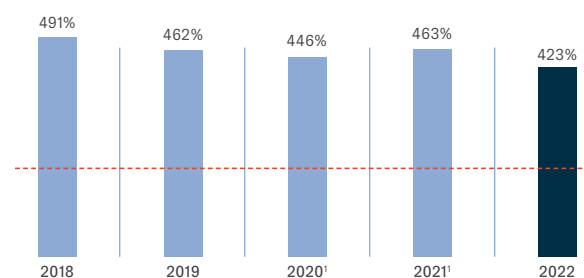
A

6 INTEREST COVER RATIO (ICR)

We aim for interest payable to be covered at least two times by net rents.

The basis of calculation is similar to the covenant included in the debt facility agreements for our unsecured bank facilities.


Calculation of this measure can be found in note 42 on page 299.



--- Benchmark = 200%

Our performance

The ICR decreased in 2022 mainly due to increased finance costs from higher average borrowings during the year. Despite this, rental income would need to fall by a further 65% before the main ICR covenant of 145% was breached.

Strategic objectives 

A

NON-FINANCIAL

7 REVERSIONARY PERCENTAGE

This is used to monitor the potential future income growth of the Group.

It is the percentage by which cash flow from rental income would grow, assuming the passing rents increase to the estimated rental value (ERV), and assuming on-site schemes are completed and let.

	2018	2019	2020	2021	2022
%	72	79	54	65	49

Our performance

The Group's ERV increased by £10.7m to £304.6m. This was helped by commencing the scheme at Network W1, but is partly offset by disposals during the year. The 2022 ERV included potential reversion of £100.4m, 49% of the net passing rent of £204.2m, of which 46% is contracted.

Strategic objectives  

8 DEVELOPMENT POTENTIAL

We monitor the proportion of our portfolio with refurbishment or redevelopment potential to ensure it contains sufficient opportunities for future value creation.

	2018	2019	2020	2021	2022
%	41	43	43	48	43

Our performance

At the end of 2022, on-site developments represented 8% of the portfolio with a further 35% identified as potential schemes. This excludes Old Street Quarter EC1.

We continue to seek opportunities to achieve the optimal balance between core income and development potential.

Strategic objectives 

R

MEASURING OUR PERFORMANCE continued

NON-FINANCIAL continued


9 TENANT RETENTION

Maximising tenant retention, in the absence of redevelopment plans, minimises void periods and contributes towards net rental income.

	2018	2019	2020	2021	2022
Exposure (£m p.a.)	14.6	10.4	12.5	19.7	13.2
Retention (%)	76	83	65	47	59
Re-let (%)	14	7	22	30	20
Total (%)	90	90	87	77	79

Our performance

Our retention and re-let rate was 79% in 2022, slightly below the 85% average over the past five years.

Strategic objectives 

R

11 BREEAM RATINGS

BREEAM is an environmental impact assessment method for non-domestic buildings.

Performance is measured across a series of ratings: Pass, Good, Very Good, Excellent and Outstanding.

We target minimum BREEAM ratings of 'Excellent' for major developments and 'Very Good' for major refurbishments.

	Completion	Rating
Soho Place W1	H1 2022	Outstanding ³
The Featherstone Building EC1	H1 2022	Outstanding ³
25 Baker Street W1	H1 2025 ¹	Outstanding ²
Network W1	H2 2025 ¹	Outstanding ¹

1 Targeted.


2 Certified at Design Stage.

3 Certified final rating.

Our performance

Following completions during the year, The Featherstone Building and Soho Place both received a BREEAM rating of 'Outstanding'.

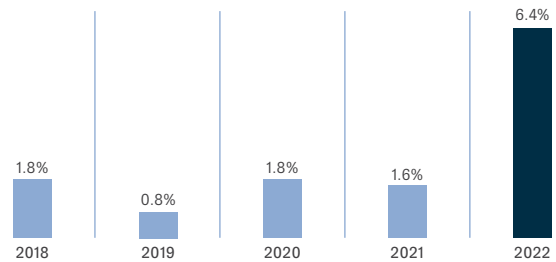
25 Baker Street and Network, our two developments currently on site, were rated or expected to be rated BREEAM 'Outstanding' at Design Stage.

Strategic objectives 

10 VOID MANAGEMENT

To optimise our rental income we plan to minimise the vacant space immediately available for letting.

We aim for this to remain below 10% of the portfolio's estimated rental value (ERV).



Our performance

At the end of 2022, our EPRA vacancy rate was 6.4%. This is partly due to the completion of two major developments, The Featherstone Building and Soho Place, in the year.

Strategic objectives  

R

12 ENERGY PERFORMANCE CERTIFICATES (EPCs)

EPCs indicate the energy efficiency of a building. The ratings range from 'A' (very efficient) to 'G' (inefficient).

We target a minimum EPC of 'A' for major new-build schemes and 'B' for major refurbishments.

	Completion	Rating
Soho Place W1	H1 2022	B
The Featherstone Building EC1	H1 2022	A
25 Baker Street W1	H1 2025 ¹	A ²
Network W1	H1 2025 ¹	A ¹


1 Targeted.

2 Stretch target.

Our performance

Soho Place and The Featherstone Building received an EPC of B and A, respectively.

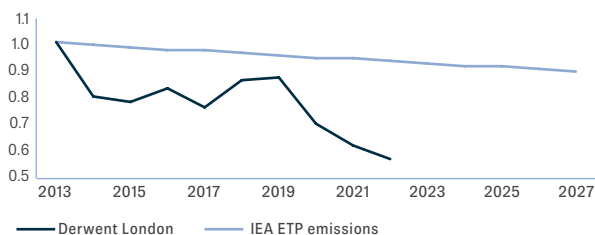
25 Baker Street² and Network, our two on-site developments, are both targeting a certification of A.

Strategic objectives 

13 ENERGY INTENSITY

A measure of energy consumption (kWh) per square metre of landlord-controlled floor area across our managed like-for-like portfolio.

Our target is a decrease in the three-year rolling average of between 2% and 4% per annum.



Our performance

In 2022 landlord energy intensity in the like-for-like portfolio decreased by 7%. The decrease is in part due to a warmer winter, as well as property management initiatives including turning off gas boilers in summer. The 43% reduction achieved since our base year of 2013 means we are on course to meet our 2027 energy intensity target. The three-year rolling average reduction is 13%.

Strategic objectives 

A R

15 ACCIDENT FREQUENCY RATE (AFR)

This is calculated based on the number of RIDDOR injuries during the year multiplied by 1,000,000 and divided by the number of hours worked. This was a new KPI introduced in 2021.

	2020	2021	2022
%	2.72	1.26	3.60

Our performance

In 2022, the AFR was 3.60% with three RIDDORs reported. This is an increase from 1.26% in 2021, in which two RIDDORs were reported. A reduction in the working hours on site in 2022 has also had an impact on the AFR.

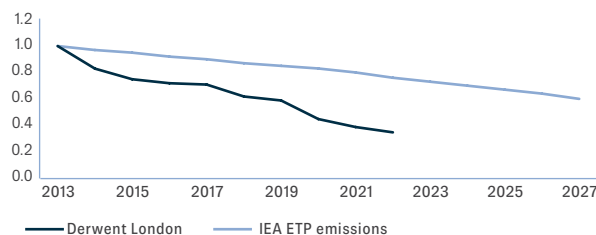
Strategic objectives 

A R

14 CARBON INTENSITY


A measure of emissions intensity per square metre of landlord-controlled floor area across our managed like-for-like portfolio.

Our target is a decrease in the three-year rolling average of between 5% and 10% per annum.



Our performance

In 2022 landlord (Scope 1 & 2) emissions intensity in the like-for-like portfolio decreased by 10%. This is in part due to decarbonisation of the electricity grid, but also a 13% reduction in gas consumption. The 65% reduction achieved since our base year of 2013 means we are on course to meet our 2027 emissions target. The three-year rolling average reduction is 16%.

Strategic objectives 

A R

16 STAFF SATISFACTION


We assess employee satisfaction through a staff survey.

We target a satisfaction rate above 80%.

	2018	2019	2020	2021	2022
%	90.4	92.5	96.3	90.5	88.4

Our performance

Staff satisfaction remained high at 88% despite a marginal fall in 2022. This strong level is testament to our collaborative and supportive corporate culture and the pride our staff feel in working for Derwent.

Strategic objectives 

R

RESPONSIBILITY

Derwent London is committed to ensuring our business demonstrates high standards of integrity, transparency and safety, whilst ensuring our offices are designed, delivered and operated responsibly, to minimise our carbon footprint.



ENVIRONMENTAL (PAGE 52)

The built environment has an important role to play in addressing climate change, from design to delivery and operational management

1. DESIGNING & DELIVERING BUILDINGS RESPONSIBLY

Ensure a responsible approach is considered and implemented at every stage of the design and delivery of our projects, including a rigorous appraisal of retrofit versus redevelopment

2. MANAGING OUR ASSETS RESPONSIBLY

Ensure our assets are managed and maintained in a responsible manner in order to maximise their efficiency

WHY

Well-designed, thoughtfully delivered real estate can have a positive impact on the environment on a whole-life basis and on local communities.

Our portfolio energy reduction targets are aligned with a 1.5°C climate scenario, minimising our operational carbon footprint.

As a responsible business, we proactively seek to comply with forthcoming environmental legislation, gaining first mover advantage. This is good business, as well as the right thing to do. In addition, we partner with organisations to progress initiatives such as the Westminster City Council (WCC) Sustainable City Charter.



SOCIAL (PAGE 57)

3. CREATING VALUE IN THE COMMUNITY

Develop and maintain strong relationships with the communities in which we operate

4. ENGAGING & DEVELOPING OUR EMPLOYEES

Maintain a working environment that encourages continuous personal development, promotes diversity and recognises and nurtures high performance

5. ENSURE THE HIGHEST STANDARDS OF HEALTH & SAFETY

Maintain and operate a robust approach to health, safety and fire risk management

6. PROTECTING HUMAN RIGHTS

Ensure we support, respect and protect the human rights of our employees, occupiers and those that work in our buildings and supply chains

As a long-term investor, we recognise that the success of our buildings and a collaborative approach has a positive social impact and helps support our communities.

Our employees are key to our success. Investing in their wellbeing and progression as well as nurturing the next generation of talent helps our performance.

Working with our supply chain and industry peers we are leading the way in minimising risks and promoting a safe working environment. Our Responsible Business Committee monitors our corporate responsibility, sustainability and stakeholder engagement activities.



GOVERNANCE (PAGE 65)

7. SETTING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE

Ensure we operate ethically and in a responsible manner with high levels of transparency and accountability

Acting in a fair and responsible manner is a core element of our business running through all levels including the Board.

OUR SEVEN ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) PRIORITIES

Our Responsibility Policy and Strategy (available on our website) sets out what operating responsibly means to us. There are seven long-term priorities intrinsic to our business and the needs of our stakeholders.

HOW

We are committed to:

- Stretching **embodied carbon** targets through intelligent design, innovative material selection and outside-the-box thinking ('long-life, low carbon')
- **Offsetting** any residual with high quality carbon credits from projects that have a genuine, positive and sustainable impact

We are:

- **Collaborating** with occupiers and our supply chain to reduce consumption
- Purchasing energy on **green tariffs**
- Investing in **self-generation** solar projects on our Scottish land
- Advancing **green leases** for responsibility and collaboration

We were the first UK REIT to:

- Publish a **Net Zero Carbon Pathway** and have subsequently reduced energy intensity by 22% since 2019
- Agree a **Green Revolving Credit Facility** and we have issued a £350m Green bond and invested £627.9m in green capital expenditure
- Commission and implement a fully **costed EPC upgrade strategy** with a phased programme of delivery now underway



We are committed to:

- Ongoing support for charities and social groups through our long-running **community funds** and our **Sponsorship and Donations Committee**
- Increasing the **social value** created through our regeneration activities and publishing **social impact studies**
- Proactively engaging with the GLA and other London boroughs to develop a leading **social value charter** to monitor the post-development social impact

We provide:

- Ongoing vocational and compliance **training** as well as mentoring
- Opportunities for **interns and students** from diverse backgrounds to experience the potential of a career in real estate
- Access to mental and physical **wellbeing** services
- **Financial support** for those experiencing hardship, e.g. a one-off cost of living payment in 2022

Our Health and Safety team has:

- Launched a **cross-sector benchmarking** and data sharing initiative in conjunction with some of our peers
- Spearheaded a project to **share best practice** policies with our peer group
- Sought to **empower** employees and contractors to speak up and speak out



We act to ensure:

- **Remuneration** is clearly linked to sustainability outcomes
- **Accountability** is demonstrated throughout the organisation
- We proactively adopt **new and emerging legislation**
- The **human rights** of our supply chain are respected
- Our actions are **independently reviewed** through third party assurance
- Our staff have access to a **whistleblowing** system



ENVIRONMENTAL

INCORPORATING THE RIGHT ENVIRONMENTAL AND CLIMATE CHANGE MEASURES ACROSS OUR BUSINESS ENABLES US TO OPERATE RESPONSIBLY.



2022 HIGHLIGHTS

- Energy intensity reduced 4% in 2022 to 123 kWh/sqm
- We contributed to the BCO report on changes to Building Specification Guidelines
- We completed two major projects designed as low carbon buildings aligned with 2025 embodied carbon targets, plus several smaller refurbishments
- We partnered with Westminster City Council on the launch of its Sustainable City Charter

➤ MORE INFORMATION CAN BE FOUND IN THE RESPONSIBILITY REPORT



-4%

annual reduction in managed portfolio energy intensity

-16%

annual reduction in managed portfolio gas consumption

98%

managed portfolio on REGO-backed electricity contracts

Climate change

Climate change is a material issue for society, our sector and our business. In 2020 we published our Net Zero Carbon Pathway which is aligned to the Better Building Partnership (BBP) Climate Change Commitment. This sets out how we intend to reduce our impact on the climate, while recognising it is not realistically attainable to reduce our carbon emissions to zero. Our business model of office regeneration and operation will, by its nature, result in the emission of embodied and operational carbon across Scopes 1, 2 and 3. However, we have set ambitious targets to reduce our carbon footprint, minimising the residual. We disclose in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and reporting frameworks.

Net Zero Carbon Pathway

As part of our commitment, we analyse our activities to ensure we are reducing our carbon footprint across all our spheres of influence. Our pathway focuses on four principal areas:

- Reducing operational energy and carbon emissions through setting annual reduction targets and engaging with our occupiers
- Procuring and investing in renewable energy
- Reducing the embodied carbon of our future pipeline
- Offsetting residual carbon emissions we cannot eliminate

The Group reports annually on its progress towards net zero by 2030. A brief outline of our 2022 progress is set out on page 56 and a more detailed review can be found in our Responsibility Report. Additionally, since 2018, we have disclosed our energy performance at portfolio and individual asset levels, as well as the embodied carbon of our latest developments.

Science Based Targets

In line with our Net Zero Carbon Pathway, we are looking to rebase our existing corporate-level Science Based Target initiative (SBTi) approved targets to a 1.5°C climate warming scenario. This will bring them in line with our property-level energy targets which are already aligned to this scenario.

As part of this rebase, we will also change our target from a Scope 1 and 2 like-for-like landlord emissions basis to absolute (tenant and landlord) consumption from our managed portfolio. Our new targets will align with UK Green Building Council (UKGBC) targets, and consequently will be compliant with Carbon Risk Real Estate Monitor (CRREM) and SBTi agreed real estate pathways.

The Group has made good progress in emissions reductions to date. In 2022, emissions were 10% lower than in 2021 and 65% lower than the 2013 baseline, both of which are ahead of target.

Energy Performance Certificates

At 31 December 2022, our portfolio was 100% compliant with forthcoming changes to Minimum Energy Efficiency Standards (MEES) which require an EPC of E or higher. MEES rules are due to become stricter in 2027 with a minimum requirement of EPC C or better. From 2030, it is expected that there will be a further change to a minimum EPC B or better. Including on-site projects, our portfolio is 85.7% 2027 compliant by ERV (2021: 78.1%) and 65.3% 2030 compliant (2021: 61.0%).

Our latest EPC upgrade cost estimate to achieve 2030 compliance is £99m after adjusting for post year end sales. See page 14 for more details.

Development pipeline

Commitment

New developments and major refurbishments will be net zero carbon on completion. The residual embodied carbon produced in the development process that we cannot manage out or eliminate through proactive use of lower carbon materials and methods of construction, will be offset using robust, verified carbon offset schemes. The buildings will be operated using renewable energy via tariffs and have appropriate energy reduction targets in place, aligned with our Net Zero Carbon Pathway.

Progress

Our Responsible Development Framework was updated in 2021, setting out the minimum net zero requirements for our developments.

Significant changes must be made by the whole industry over the next decade if we are to meet our collective net zero ambitions. When setting standards for our pipeline projects, we therefore place substantial emphasis on stakeholder engagement and collaboration to strengthen our impact.

- **Operational carbon** – We work with our building services engineers and sustainability consultants to avoid over-specification of buildings.
- **Embodied carbon** – We partner with smaller contractors to advance the industry, in particular estimating embodied carbon of building services.
- **Industry bodies** – In 2022 we sponsored a report by the WPA, 'Retrofit First, not Retrofit Only', in which carbon assessment is placed on an equal footing with other design parameters to inform the optimal 'retrofit versus new build' solution.

In 2022, we worked closely with the British Council for Offices (BCO) to inform and update the key design criteria in its Guide to Specification. These revisions are intended to discourage overprovision and support the shared drive towards net zero carbon. Two of the proposed key specification changes are to: 1) reduce base case workplace density from 8-10 sqm to 10 sqm (lower embodied and operational carbon), and 2) lower small power allowance from 100W per work setting to 60W (lower operational carbon).

Embodied carbon targets

The embodied carbon assessments of our projects are performed using 'Cradle-to-Completed Development (A1-A5)' methodology (refer to our Embodied Carbon Assessment Brief at www.derwentlondon.com). The 'Completed Construction' stage of delivery can be either 'Shell and Core' or 'Cat A' depending on commercial negotiations with occupiers and may differ by project.

A development's embodied carbon, particularly the building's structure, comprises a significant part of our overall carbon footprint. We work closely with our design and construction teams to assess and reduce this, as well as working with our supply chains, which we recognise will need to adapt to fully achieve our aims. Our targets for Commercial Office New Build developments, which align with the Greater London Authority's (GLA) targets, are based on our own experiences and industry guidance, and phased as follows:

- Completing from 2025: ≤ 600 kgCO₂e/sqm
- Completing from 2030: ≤ 500 kgCO₂e/sqm

Our on-site projects at 25 Baker Street W1 and Network W1 are being delivered to align with our 2025 target.

RETROFITTING SMALLER BUILDINGS

At 43 Whitfield Street W1, the Asset Management team identified a Furnished + Flexible solution as being the best opportunity when 11,000 sq ft across four floors became vacant.

As well as fully fitting the office floors and enhancing end of trip amenity provision, the retrofit has modernised the building's green credentials by taking the services all electric and upgrading windows from single to triple glazing. This resulted in an EPC rating improvement from D to B, helping future-proof the space against evolving environmental legislation.

The response from the leasing market was strong, with the space fully let within two months of practical completion, ahead of our appraisal assumptions. The letting terms also outperformed expectation, with two new occupiers each taking two floors on 10-year leases with breaks at year 5 and rents at an attractive premium to ERV. Feedback from the occupiers confirmed that proximity and access to DL/78 played an important part in their decision making.



ENVIRONMENTAL continued

Investment portfolio

Commitment

Our investment portfolio will be operated on a net zero carbon basis by 2030. This involves driving down our energy consumption significantly, upgrading and retrofitting some of our properties to remove gas use and improve efficiency, as well as collaborating with our occupiers.

Progress

Scope 3 emissions (see glossary) form a significant part of our carbon footprint. The results of our net zero carbon occupier survey in 2021 showed clearly that our occupiers are at different stages of their journeys. This survey was for many the important first step in working together with us.

In 2022, we increased our occupier engagement strategy. This details the process of how we aim to engage with new and existing occupiers, building on the many relationships our Asset and Property Management teams have with tenants at all levels through their organisations.

The process of reaching out to occupiers who responded to our net zero carbon survey is well underway, providing the opportunity to improve collaboration and deliver outcomes aligned with our mutual net zero aspirations.

We are taking a tailored and flexible approach to support our occupiers on their sustainability journey by:

- Progressively upgrading green lease clauses;
- Rolling out Intelligent Building infrastructure across our managed portfolio;
- Providing energy data to occupiers alongside recommendations to reduce energy usage;
- Organising Green Forums for occupiers, including best practice sharing;
- Providing input into environmental certifications – e.g. 'B Corp';
- Issuing guidance notes on energy and water reduction; and
- Holding behaviour change events such as Recycling Awareness days.

In 2023, we will continue to develop engagement with our occupiers to further reduce operational energy usage, increase recycling levels throughout the portfolio and better communicate good practice across the business.

As we embed sustainable practices across the business, we have developed and rolled out a Net Zero Carbon Action Plan for each building within the managed portfolio. These plans provide a clear benchmark for measuring performance against our energy, water and waste reduction targets, and are designed to encourage building managers to take a proactive approach to monitoring.

2022 RATINGS



GRESB (Global Real Estate Responsibility Benchmark) 2022 – Green Star status, 'A' rated public disclosure (100/100), Development 5 Star (94/100), Standing Assets 4 Star (82/100)



MSCI – 'AAA' rating



CDP 2022 – Climate change 2022 'B' rating



EPRA Sustainability Reporting Award 2022 – Gold award



ISS Oekom – Prime status

PROPERTY MANAGEMENT ACTIVITIES

Supply chain awareness

Good sustainability practices among the suppliers that help maintain our properties is an important part of our net zero pathway. In 2022, we worked with our key services suppliers, such as cleaning, front of house and security, to embed sustainability standards into our contracts. An example of this is the requirement for our cleaning suppliers to have ISO 14001 certification and evidence of their own net zero pathways which includes a commitment to using sustainable cleaning products and energy efficient equipment that can be responsibly disposed of at the end of life.

Portfolio-wide energy reduction

In addition to building-specific works, we have identified and are implementing a number of portfolio-wide measures to reduce energy consumption. Some of these initiatives are the installation of long-life, energy efficient LED lighting sources in all common areas and Passive Infrared (PIR) sensors to switch off lighting when spaces are not in use. We are also adjusting temperature set points in common areas to reduce consumption. We are carrying out Building Management System energy health checks across the portfolio to identify other opportunities to improve building energy efficiency.

Water management

Part of our journey to net zero carbon is reducing water consumption. To help keep managed portfolio annual consumption below our target of 0.5m³ per sqm floor area, we have introduced a Water Management Guide that sets out our strategy for reducing water consumption and reviewing our performance.



Corporate activities

Commitment to renewable energy

Our commitment is to ensure that all the energy we procure, both electricity and gas, is from renewable sources.

Progress

In 2021 and 2022, we procured 97% (restated for additional data capture) and 98% Renewable Energy Guarantees of Origin (REGO) backed electricity respectively. Following a comprehensive contract review in 2022, 100% of contracts up for renewal were switched to a Renewable Green Gas Origin (RGGO) tariff and 79% of gas used in 2022 was procured on these tariffs. Together, 92% of energy (electricity and gas combined) purchased in 2022 was on green contracts.

A key milestone in 2022 was the receipt of resolution to grant planning consent for an 18.4MW solar park on our Scottish land at Lochfaulds Farm. Our appraisals suggest this could provide in excess of 40% of the electricity needs of our managed portfolio when operational based on 2019 consumption levels. We are currently finalising plans for this exciting project.

Commitment to offsetting

Where we are unable to manage out or eliminate carbon – operational or embodied – from our business activities, these emissions will be offset using robust, verified carbon offset schemes. We plan ahead for our regeneration projects which may involve the forward purchase of carbon credits.

Progress

The following refurbishments, and their associated embodied carbon value, were completed in 2022.

- Francis House SW1 – 1,280 tCO₂e
- White Chapel Building E1 – 143 tCO₂e
- Tea Building E1 – 172 tCO₂e
- 43 Whitfield Street W1 – 94 tCO₂e
- 90 Whitfield Street W1 – 230 tCO₂e

The residual carbon was offset through our provider Climate Impact Partners in a scheme related to reforestation projects in East Africa which is validated under the Verified Carbon Standard (VCS) and the Climate, Community and Biodiversity Standard (CCB).

We are also looking at offsetting opportunities across our Scottish portfolio. Having received the first carbon credits last year from our 2015 tree planting scheme in Scotland, we have progressed our tree planting feasibility study and intend to plant c.85Ha over the next two years. In addition, a further c.240Ha of land has been identified as potentially suitable for planting, subject to further appraisals.

ENVIRONMENTAL continued

Environmental performance in 2022

Carbon

Our operational carbon footprint (location based – see pages 69 and 70) has reduced by 7% from 2021. This is due to active reductions across the portfolio, as well as further decarbonisation of the grid.

We account for 100% of embodied carbon in the year an eligible project completes. In 2022, we completed three major projects and several smaller ones. Consequently, our embodied carbon footprint was significant at 32,869 tCO₂e. This comprises the largest portion of our total carbon footprint when included. Refer to page 53 for details on how we are tackling embodied carbon.

Energy

Overall energy consumption decreased by 3% from 2021, with our managed portfolio energy intensity reducing by 4%. This means we have achieved our 1.5°C aligned energy intensity target for 2022. On a more granular level, our gas consumption decreased by 16% year-on-year, which in part is as a result of a generally warmer winter, but also a significant effort to switch off gas boilers entirely during summer months.

Our landlord electricity usage reduced by 1% from 2021, due to commencing portfolio-wide initiatives such as rolling out PIR sensors and LED lighting, as well as increasing temperature set points during summer months and reducing them in winter. Tenant electricity consumption increased by 5%.

Water

Water consumption increased significantly from last year, likely as the result of increased occupancy. Whilst this remains a small part of our carbon footprint (<1%), we will be looking to roll out water efficiency initiatives across the portfolio.

Waste

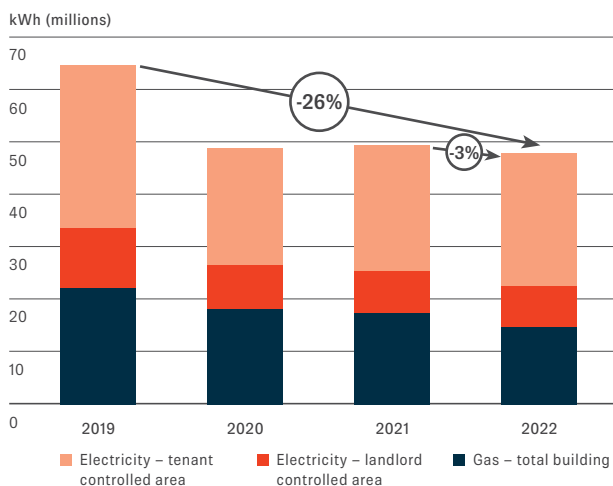
Our total waste generated increased during the year, likely as a result of increased occupancy. Our recycling rate has improved to 68%. Whilst this is a 3% increase from last year, it falls short of our corporate target (75%). We are working closely with our waste contractor and our occupiers to improve this. One such initiative is arranging site visits to our contractor’s recycling facility. In buildings where this has occurred, we are seeing an increase in the recycling rate as a result of increased engagement. We have also introduced clauses, as part of our sustainability update to our leases this year, which encourage tenants to utilise our supplier, as well as match on-floor provisions in line with all landlord waste streams.

2023 PRIORITIES

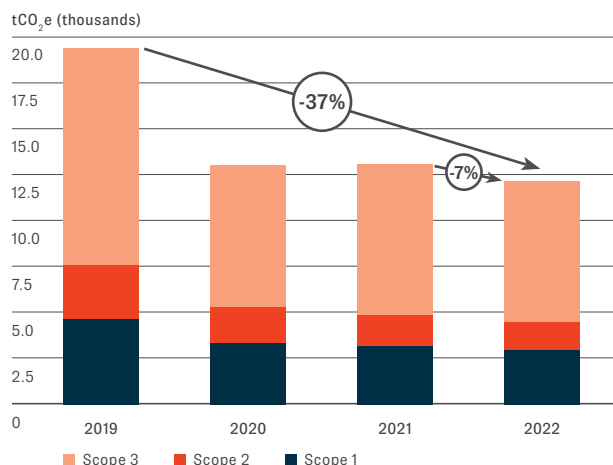
- Progress all electric building transition programme
- Align Net Zero Carbon Pathway with UK’s Transition Plan Taskforce
- Convert occupier engagement into reductions in energy consumption
- Rebase our Science Based Target initiative (SBTi) targets to 1.5°C scenario
- Continue to develop our approach to measure our carbon impact

➤ See page 43

Energy usage – electricity and gas

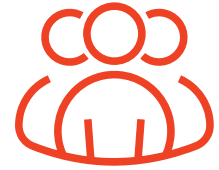


Operational carbon footprint – Scope 1, 2 & 3



SOCIAL

OUR COMMUNITIES, OCCUPIERS AND OTHER STAKEHOLDERS.



We recognise that our buildings are an integral part of the communities they sit within and we strive to create value where possible for all our stakeholders.

2022 HIGHLIGHTS

- Fitzrovia and Tech Belt Community Fund distributions up 20% year-on-year to £120k (and will remain at this level for two more years)
- Three-year funding programme agreed with the Fitzrovia Community Centre
- Worked with external consultants to define our social value framework
- Support given to those affected by the conflict in Ukraine

➤ MORE INFORMATION CAN BE FOUND IN THE RESPONSIBILITY REPORT



SOCIAL VALUE ADDED

+20%

increase in 2022 Community Fund distributions to £120,000

13

Community Fund projects supported in 2022

£354k

amounts committed by the Sponsorship and Donations Committee in 2022



Derwent London staff and occupier volunteering

Working with our community stakeholders

The goal of our community engagement is to support local groups in the communities in which we operate and ensure that our business recognises the role it plays. Our engagement takes many forms to maximise the positive impact on local communities.

Financial support, through our corporate giving and community funds, is important. We place equal value on actively supporting and being part of communities so we can make a real impact. Employee volunteering, work experience opportunities and building open days have all contributed to establishing and maintaining effective connections.

Engaging in collaborative conversations with the organisations we work with refreshes our focus and ensures we are addressing the aspirations of our communities in an inclusive manner.

Social value framework

We recognise the positive impact real estate can have on communities. In 2022, we began working with Envoy Partnership, an external social value and impact management consultancy, to formalise our social value framework. We expect this work will complete and be implemented in 2023. See our Responsibility Report for more details.

Community funds

Derwent London operates two community funds: Fitzrovia and West End (founded in 2013) and the Tech Belt (2016). The key priority of the funds is to support and create value in the local community by providing funding for a variety of grassroots projects with a focus on community events, environmental improvements, health and wellbeing activities, music and culture, and ongoing help for local groups.

Since inception, we have been introduced to many local groups in both areas of London which has helped broaden our perspectives and better understand the issues affecting local people. Total distributions to date exceed £900,000, with c.150 different projects benefitting. All selected projects aim to support wellbeing, improve people's futures and equip them with skills for life.

SOCIAL continued

In 2021, we asked Chickenshed's Youth Taskforce to review our processes and to refresh our thinking around 'community'. Following this review, we implemented in 2022 a number of positive changes to the funds that make the application process more flexible and inclusive, bringing the beneficiary(s) into a more central role in the project. Examples include:

- Removal of the £10,000 application cap for registered charities;
- Increasing the number of ways to apply for funding (application form, short film, electronic presentation, etc.); and
- Demonstration that the proposed project is responding to a need identified by the prospective beneficiary(s).

Teenage Cancer Trust (TCT) has been a long-term charity partner for the Group and 2022 saw the return of the TCT fundraising lunch, the first since 2016. As well as being shown some of the hugely positive outcomes of the work TCT does with teenage cancer patients, a total of £245,000 was raised including a corporate donation by the Group.

Support for Ukraine

The conflict in Ukraine has impacted the lives of many people across our portfolio: our employees, our occupiers' employees and the communities where we invest. In March, we set up a JustGiving page to support the UK Disasters Emergency Committee's Ukraine appeal and agreed to match donations from across our portfolio. A total of £20,000 was raised from several initiatives, which Derwent London matched.

In addition, we provided support to the Ukrainian Orthodox Church in London. To facilitate its use as a refugee advice and counselling centre, our development team advised on the design and implementation of improvement works to enable basement access. In addition, we provided space within our buildings for use by projects linked to Ukrainian refugees.

2023 PRIORITIES

- Continued funding for the community funds
- Complete our new social value framework and embed this into our community work across the portfolio

➤ See page 17



SUPPORTING UKRAINIAN REFUGEES – TRAFALGAR GIRLS

Trafalgar Girls is a volunteer project set up in response to the conflict in Ukraine. It provides a platform for information and practical help for Ukrainians in Ukraine and Europe including the United Kingdom. All the help is provided person-to-person or volunteer to person/people.

A key initiative launched in July 2022 was a six-month online mentoring project for newly arrived Ukrainian refugees in all corners of the UK. In October 2022, Derwent London provided the rooftop space at White Collar Factory EC1 for Trafalgar Girls to host an in-person mentoring event. A total of 40 women, split evenly between mentees and mentors, attended with mentees highlighting the many benefits they got from meeting their mentors and other women experiencing similar situations face-to-face.

FITZROVIA COMMUNITY CENTRE

We have supported the Fitzrovia Community Centre (FCC) through our Community Fund for several years, whether that be the refurbishment of their courtyard garden, their community arts projects or health and wellbeing activities. In 2022, we entered into a new three-year agreement with FCC, which celebrated its 10th anniversary, recognising its commitment to restoring community wellbeing and social connections. We are pleased to be able to support its ambitious plans, based on feedback from local people, to place it at the heart of the community and to welcome local residents of all ages to take part in a variety of events such as arts and craft activities, family play, dance and exercise classes.

“We bring together people, organisations and businesses to share, learn and contribute to a brighter, more connected future.”

DONNA YAY
Centre Director

OUR PEOPLE

We aim to attract, inspire and engage a talented and diverse workforce, one that flourishes and is proud to work for Derwent London.

2022 HIGHLIGHTS

- Held third offsite company awayday
- Five new apprentice opportunities created and recruited
- Strong results for internal 'pulse survey' measuring employee satisfaction and engagement
- Supported employees with a financial awareness session and a targeted cost of living payment

17

internal promotions during 2022

88%

employee retention rate

91%

"I am proud to work for Derwent London"

£1,000

one-off cost of living payment for eligible employees

Attracting and optimising talent

We recognise that the success of Derwent London, the execution of our strategy and delivery of above average long-term returns, stem from the top talent we employ. We aim to create a culture which enables our exceptional and diverse workforce to thrive and where people feel they can be their authentic selves and have a voice. Employee feedback and regular performance conversations with line managers are encouraged, in addition to formal semi-annual reviews.

The Group supports our employees with their ongoing development and career progression. In 2022, there were 17 internal promotions including four new Executive Committee appointments. There were also several internal lateral moves as part of our continued efforts to grow, upskill and develop talent from within.

Employee retention, excluding retirements, remains very high at 88%. 46% of our employees have been with the Group for five or more years, and 24% for at least 10 years. This provides the business with a high level of continuity and knowledge, balanced with fresh ideas, experience and skills. In 2022, 45 people were recruited externally, of which approximately half were new positions.

We continue to focus on building a long-term talent pipeline and, as a result, have regular succession planning discussions. To facilitate this, we invest significantly in our employees, with comprehensive learning and development programmes catering to behavioural and technical needs at all levels. These include a suite of core skills training workshops, our induction programme, internal technical workshops, one-to-one coaching and mandatory compliance training (see page 171). These were well received and we will continue to build on this upskilling programme in 2023.

We believe that coaching is valuable for individual development and is something we have provided for a number of years. In 2022, we decided to expand this and engaged an Executive Coach to work alongside our Asset Management team – see page 61 for further details.

It is not only about investing in existing talent. For the real estate industry to appeal to a broader cross-section of society as a fulfilling place to work, creating opportunities for people from different backgrounds is important. We created five new apprenticeship positions within our Building and Facilities Management Teams and are using the Apprenticeship Levy to support them in achieving their Level 2 Certificate in Facilities Services.

SOCIAL continued

Health and wellbeing

We believe that our people are most productive when they are physically and mentally thriving and socially connected. We work hard to ensure that our people continue to feel supported. Alongside the suite of employment benefits we offer, our Mental Health First Aiders and Employee Assistance Programme, we have implemented more practical frameworks and tools:

- Following feedback from our 2021 employee survey, we launched a new 'Smart Working' policy in April 2022 which offers a framework that can flex to fit the performance and business requirements of each team and role.
- All employees were offered and encouraged to attend various sessions covering mental and physical health and financial awareness.
- A one-off £1,000 cost of living payment was made to eligible employees.
- Our Social Committee events continued to provide opportunities for employees to connect.

Employee health and wellbeing remains at the top of our agenda for 2023.

Diversity and inclusion (D&I)

Derwent London is a respectful employer that welcomes diversity and promotes equality, acceptance and teamwork. It is important that we create an inclusive workplace in which our people can bring their whole selves to work, feel valued and be able to make a genuine impact and contribution.

The Group's belief in 'diversity of thought' extends beyond the traditional facets of gender, ethnicity, age and sexual orientation to include personality, communication and work styles. We recognise that diversity enriches our creativity and adds value for our stakeholders.

➤ GENDER DIVERSITY DATA / [See page 189](#)

Building on our strong D&I foundation and achievement of the National Equality Standard accreditation in 2021, the Group ran a number of initiatives across three categories during 2022 with the aim of further embedding D&I in our culture:

- **Levelling up** – In addition to continued analysis of our recruitment process outcomes, we participated in several initiatives to promote D&I: 10,000 Black Interns programme (four young people for six weeks); work experience (15 students, from a mix of gender, socio-economic background and ethnicity, for two weeks); and apprenticeships (created five new apprenticeship opportunities).



Participants of the 10,000 Black Interns programme

- **Training** – In addition to role-specific training, we provided guidance and support on a variety of other D&I-related topics, including unconscious bias training, inclusive leadership and disability awareness.
- **Employee support and wellbeing** – We recognise that our employees face a number of challenges, personally and professionally, in the current climate. We provided support in a number of different ways in 2022, including a ‘Smart Working’ policy and various wellbeing sessions.

Following our focus in this area, we were encouraged to see that 84% of respondents in our ‘pulse survey’ agreed that ‘Derwent London is an inclusive place to work.’

The priorities for 2023 include disability awareness and a focus on inclusion.

Employee engagement

Our culture stems from our values and is a key strength of the business. Our long-term relationships with colleagues and stakeholders are based on inclusivity, collaboration and professionalism. Employee engagement and communication is very important, facilitated by our ‘open-door’ policy. Having 82% of employees based at our head office, 25 Savile Row W1, enables effective, regular face-to-face interaction. Together with a range of formal and informal communication channels (see page 144), we have a highly engaged workforce.

During 2022, we ensured open lines of communication remained in place to enable our employees to stay connected, whilst feeling valued and supported. Following positive feedback, our CEO-led monthly town hall meetings continued with ongoing knowledge sharing from speakers around the business.

Annually, we use anonymous employee surveys to obtain staff feedback, consisting of a short ‘pulse survey’ and a full independent survey in alternating years. An employee focus group, comprising individuals from varying departments, gender, ethnicity, age and length of service, were invited to review the results of the 2021 full survey and put forward recommendations to the Executive Committee against which regular progress updates were provided. We achieved a 94% response rate to our 2022 ‘pulse survey’, demonstrating our open culture, which indicated a high satisfaction rate with 91% of respondents ‘proud to work for Derwent London’, broadly in line with previous years. In addition, 88% of respondents said they were ‘able to make a valid contribution to the success of Derwent London’.

INVESTING IN TEAM COACHING

The Group has invested in individual coaching for several years. In 2022, we added team coaching to support our employees as they build internal relationships and to help maximise collective potential.

The Asset Management team was offered the opportunity to work with two external coaches. The modular programme, which included using 360° feedback from the team’s main stakeholders, sought to harness the individual strengths in the team, whilst at the same time identifying team objectives, opportunities and encouraging a more distributed leadership approach.

The feedback was positive and further demonstrated the value of continuous development and challenging the status quo.



“Introducing new team meeting behaviours was a first step in growing a sense of psychological safety to promote more challenge and contribution. The team quickly took collective responsibility for their effectiveness, leading to decisions being reached more collaboratively while encouraging individuals to step up, take responsibility and challenge the prevailing norms.”

GERALDINE GALLACHER

CEO at The Executive Coaching Consultancy

SOCIAL continued

OUR AWAYDAY

We were delighted to be able to hold our third off site awayday in September 2022 from which employee feedback was positive. The purpose was to promote cross-team collaboration, build relationships, welcome all new joiners and hear an update from the CEO on business strategy and priorities.

The day was full of fun, interactive team building events and we were joined by an inspiring and motivational guest speaker.



2023 PRIORITIES

- Further embed diversity and inclusion, with a particular focus on disability
- Continue to focus on future succession planning and building critical skills
- Provide further health and wellbeing initiatives
- Maintain monthly town hall meetings to ensure full integration of corporate vision, purpose and values
- Take appropriate actions to address opportunities identified from employee surveys

➤ See page 42

HEALTH AND SAFETY

Ensuring the health and safety (H&S) of our employees and buildings is critical to our business. We endeavour to ensure a safe and secure working environment for our people, contractors and customers, through effective risk management.

2022 HIGHLIGHTS

- We jointly launched the cross-sector Real Estate Benchmarking Group
- Issued an accessibility design standard for inclusion in all future regeneration projects
- Introduced H&S Leadership Tour Programme with contractors and service providers
- Introduced Continuous Improvement Group with principal and main contractors

The 'Derwent Way'

The 'Derwent Way' underlines our expectations and standards in health and safety, covering a range of subject matter. This was further developed in 2022 to support the creation of a safety management system, ensuring consistency and quality in procedures and policy.

- **Our aim** is to provide healthy, safe and secure environments for our people, customers and contractors to work, live, visit and relax.
- **Our people** are fundamental to the success of our business, which is why we invest in, and develop, our people to ensure healthy and safe work environments.

Real Estate Benchmarking Group

In April 2022, the cross-sector Real Estate Benchmarking Group, which Derwent London co-founded in 2021, shared its first H&S data peer analysis with its member organisations. This provides valuable information in assessing our position within the sector and for measuring future progression.

Further enhancing our compliance platform

Property H&S compliance remains a top priority. Our current combined commercial and residential property H&S compliance score is 98%, above our target benchmark of >95%. In 2022, the compliance system was updated to incorporate a new accident/incident module, the development of an online permit to work system, whilst also developing the 'Golden Thread' functionality to align the high-rise residential/mixed-use properties with the requirements of the Building Safety Act 2022.

Our H&S approach is centred around three key aspects – people, assets and developments.

People

Everyone we employ, or have a direct influence on at work or with our business activities, deserves to feel safe and healthy. Our culture is focused on the health, safety and wellbeing of our staff, service partners and contractors through a transparent, inclusive approach and strong leadership. For our people to develop their competencies, we have designed an H&S training matrix, benchmarked against our peers, in consultation with internal stakeholders to allocate specific H&S training to job profiles.

Our staff are kept up to date with regular internal and external training on H&S matters which in 2022 included Legal Updates, Property Compliance, Working at Height, Construction Design, Fire Safety, and a suite of e-learning modules. Mishcon de Reya LLP also delivered bespoke 'Legal Update for Directors' training to our Board and Senior Management team. Collectively 58.5 training workdays were completed in 2022.

Two members of staff were trained to become Mental Health First Aiders, taking the total to 15, or one in 12. We also have 12 further employees trained as Mental Health First Aid Champions, which demonstrates our strong direction in challenging the stigma surrounding mental health and neurodiversity.

Assets

Following transfer of the H&S reporting system to RiskWise in 2021, our Scottish assets also adopted RiskWise in 2022, ensuring a consistent approach across our portfolio. To reflect the rural and agricultural activities of our Scottish business, a separate suite of H&S Standards has been developed called the 'Caledonian Way'.

The Property Health Check template has now been integrated into RiskWise, facilitating the annual review process which includes a site health and safety check, as well as traffic management and roof access surveys. All of our directly-managed properties were reviewed in 2022.

Derwent London considers health, safety and wellbeing at every stage of a building's life cycle – from acquisition, development, operational management, leasing and disposal. This requires collaboration with other teams in designing, building, maintaining and operating our buildings safely in line with best practice.

SOCIAL continued

Developments

2022 was a busy year for major schemes with 450,500 sq ft of space completing and 435,000 sq ft on site at year end. The RIDDOR accident frequency rate (AFR) increased to 3.60 from 1.26 in 2021. However, this remains low and our construction projects continue to adopt the highest standards in health, safety and wellbeing.

We have strong relationships with our principal and main contractors, endeavouring to lead by example as an informed and responsible construction client. As well as independent and internal H&S monitoring of our construction sites, we require our supply chain to achieve specific stretching target scores for Construction Logistics and Community Safety (CLOCS) and Considerate Constructors Scheme (CCS). In 2022, all our contractors met or surpassed these targets.

We held our first two Continuous Improvement Group (CIG) meetings with our 'tier one' and 'tier two' principal contractors and will hold further meetings on a quarterly basis. As well as reinforcing the Client H&S standards expectation through the Derwent Way, the CIG provides a forum for sharing construction best practice and education in health, safety and wellbeing. We supported HSE campaigns on mental health, musculoskeletal disorders and respiratory health during 2022.

In July 2022, Build UK and the Civil Engineering Contractors Association (CECA) introduced a new Common Assessment Standard (CAS) to improve efficiency and reduce cost in the construction pre-qualification system. Derwent London was one of the first construction clients to sign up to CAS and incorporate it as a requirement within our tender process.

2023 FOCUS AREAS

- Deliver Fire Safety Management System in line with updated legislation and guidance (Building Safety Act 2022, BS9997 and the Fire Safety Act 2021)
- Develop building safety cases for residential buildings in scope of the Building Safety Act 2022
- Set up Continuous Improvement Group (CIG) for our architects, principal designers and project managers
- Further embed suitable and sufficient H&S competency in key operational aspects of the business, through the Health & Safety Training Matrix
- Develop, with Human Resources, a wellbeing programme for Derwent London in 2023
- Set up an employee forum for disability, safety and health, with representation from across the business, as a member of the Business Disability Forum from 1 March 2023

HEALTH AND SAFETY DATA

The table below details our key health and safety statistics which has been assured (following the ISAE3000 (Revised) standard) by Deloitte LLP to the reasonable level. This data allows us to identify trends and highlights where we should focus.

	Employees		Managed portfolio		Developments	
	2022	2021	2022	2021	2022	2021
Person hours worked	288,000	266,960	370,314	31,960	833,258	1,591,416
Minor accidents	0	0	20	9	18	42
Near miss ⁶	0	n/a	20	n/a	17	n/a
Lost time injuries ⁶	0	n/a	0	n/a	2	n/a
RIDDORs	0	0	0	0	3	2
Dangerous occurrences	0	0	0	0	0	0
Fatalities	0	0	0	0	0	0
Improvement notices	0	0	0	0	0	0
Prohibition notices	0	0	0	0	0	0
Injury rate ^{1,5}	0.00	0.00	54.01	0.00	21.60	26.39
Lost day rate ^{2,5}	0.00	0.00	0.00	0.00	2.40	5.66
Severity rate ^{3,5}	0.00	0.00	0.00	0.00	0.11	0.31
RIDDOR AFR ⁴	0.00	0.00	0.00	0.00	3.60	1.26

1 Injury rate – (injuries excluding RIDDOR and lost time injuries)/(total hours worked) x 1,000,000.

2 Lost day rate – (lost time injuries excluding RIDDOR)/(total hours worked) x 1,000,000.

3 Severity rate – total number of lost work days (excluding RIDDORs)/total number of incidents.

4 RIDDOR accident frequency rate (AFR) – the number of RIDDORs/(total hours worked) x 1,000,000.

5 Deloitte LLP do not assure injury rate, lost day rate or severity rate for 'Employees'.

6 Near miss and Lost time injuries are new statistics for 2022. No comparable prior year figures available.

GOVERNANCE

AT DERWENT LONDON, **ACTING IN A FAIR AND RESPONSIBLE MANNER** IS A CORE ELEMENT OF OUR BUSINESS PRACTICE.



2022 HIGHLIGHTS

- Publication of climate-related financial disclosures consistent with the TCFD Recommendations as required by the Listing Rule 9.8.6(8)(b)
- Consulted with shareholders representing c.64% of our issued share capital on our proposed amendments to the Remuneration Policy
- Reviewed the BEIS Response Statement on audit and corporate governance reform and agreed our approach to the new requirements
- Continued mandatory compliance training programme for all employees (including Directors)
- Published our latest Modern Slavery Statement
- Updated our Code of Conduct & Business Ethics
- HMRC confirmed that our low risk status has been extended to summer 2023

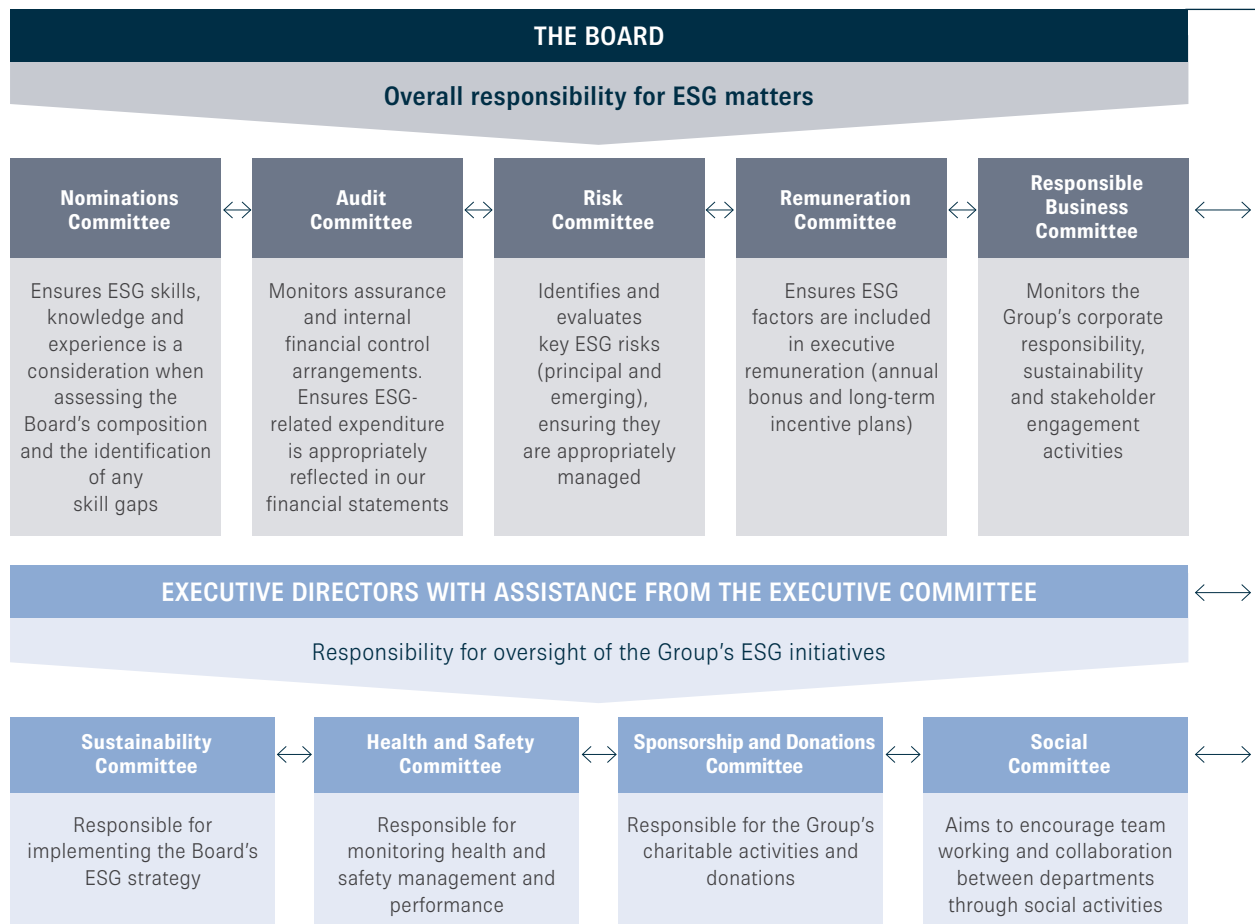
A responsible business

The oversight of ESG matters is critical. It not only allows the Board to appreciate more holistically the impact of its decisions on key stakeholders and the environment, but also ensures it is kept aware of any significant changes in the market. This includes the identification of emerging trends and risks, which in turn can be factored into its strategy discussions.

ESG is overseen principally by the Board, Responsible Business Committee and Sustainability Committee (see our ESG Governance Framework).

Our Chief Executive, Paul Williams, is the designated Director with overall accountability for ESG matters however, the responsibility for overseeing its day-to-day management is delegated to Nigel George (Executive Director). Paul Williams oversees the review and performance of our responsibility work as Chair of the Sustainability Committee and as a member of the Responsible Business Committee.

Our ESG Governance Framework



GOVERNANCE continued

Climate change governance

The governance of climate change risk and opportunities is ultimately the responsibility of the Board. However, day-to-day management is delegated to the Executive Committee and senior management.

The Board monitors the Group's progress through our science-based targets, which were independently validated and approved by the Science-Based Targets initiative (SBTi) in 2019. In addition, specific performance indicators are assured by Deloitte LLP and these can be found in their Independent Assurance Report in the Responsibility Report.

Our strategy and targets for energy consumption and carbon emissions are set and monitored by the Board. The Board, Responsible Business Committee and Executive Committee receive regular updates and presentations on environmental and sustainability performance from the Head of Sustainability. In addition, the Remuneration Committee has further strengthened the alignment between executive remuneration and our net zero carbon ambition, by introducing sustainability performance metrics within the LTIP as part of the revisions made to the Group's Remuneration Policy (see page 191).

Green finance governance

Our Green Finance Framework allows us to clearly link our financing to the environmental benefits our activities generate. The Audit Committee receives annual updates on our green finance initiatives including in respect to our reporting disclosures and during the year, received training in respect of climate-related reporting (see page 158).

Our Green Finance Framework received a Second Party Opinion (SPO) from DNV that it is aligned with the Loan Market Association's Extended Green Loan Principles and the International Capital Market Association's Green Bond Principles. The SPO is available on our website. Deloitte have also provided reasonable assurance over selected green finance KPI disclosures. Their assurance statement is available within the Responsibility Report on our website.

➤ [OUR GREEN FINANCE FRAMEWORK / See page 108](#)

£627.9m

cumulative Eligible Green Project (EGP) capex at 31 December 2022 across four eligible projects

Supply chain governance

It is important to us that our suppliers and construction partners operate ethically and share our ESG business principles.

Our supply chain governance procedures ensure our suppliers are aware of the standards we expect from them and the business practices which we will not tolerate. All suppliers with whom we spend more than £20,000 per annum are required to provide evidence of how they are complying with our Supply Chain Responsibility Standard, which sets out our principles and expectations in terms of the environmental, social, ethical and governance issues which relate to our supply chains.

➤ [SUPPLY CHAIN RESPONSIBILITY STANDARD / See page 185](#)

➤ [MATERIAL AND LABOUR SHORTAGES / See page 113](#)

Ensuring our payment practices are ethical is a key requirement in governing our supply chain. This will remain an area of particular importance, and focus for the Group, due to the economic uncertainty and the potential impact of recession on businesses.

➤ [RESPONSIBLE PAYMENT PRACTICES / See page 185](#)

Protecting human rights

The protection of human rights and fundamental freedoms is one of our key ESG priorities which we manage from an internal (within our business) and external perspective (within our supply chain and our relationships with contractors). Internally, the Board monitors our culture to ensure we maintain our values and high standards of transparency and integrity. Our Human Resources team ensures that we have the right systems and processes in place to strengthen and sustain our culture.

➤ [THE BOARD'S ROLE IN MANAGING THE GROUP'S CULTURE / See page 140](#)

Externally, we are active in ensuring our ESG standards are clearly communicated to our supply chains, principally via our Supply Chain Responsibility Standard. To ensure the human rights of our supply chain are respected we are clear on our zero-tolerance position with regards to slavery and human trafficking as set out in our Modern Slavery Statement.

Based on our ongoing risk assessment, we continue to believe the risk of any slavery or human trafficking in respect of our employees is low. Further information on our efforts to prevent modern slavery occurring in our supply chain is on page 185.

[MODERN SLAVERY STATEMENT / www.derwentlondon.com/investors/governance/modern-slavery-act](#)

Tax governance

We take our obligations as a taxpayer seriously and focus on ensuring that, across the wide range of taxes that we deal with, we have the governance and risk management processes in place to allow us to meet all our continuing tax obligations. The Board has overall responsibility for our tax strategy, risk assessment and tax compliance. Our statement of tax principles, which is approved by the Board, is available on our website: www.derwentlondon.com/investors/governance/tax-principles

We have an open and transparent relationship with HMRC and seek to anticipate any tax risks at an early stage, including clarifying areas of uncertainty as they become evident.

We keep HMRC informed of how our business is structured and respond to all questions or requests promptly. Our Head of Tax also regularly engages with HMRC via his roles with the Chartered Institute of Tax and the British Property Federation to support consultations or to seek legislative clarification in areas that could potentially impact our business. HMRC have confirmed that our low risk status has been extended to summer 2023.

REPORTING FRAMEWORKS AND ESG DATA

Non-financial reporting

As we have fewer than 500 employees, the Non-Financial Reporting requirements contained in the Companies Act 2006 do not apply to us. However, due to our commitment to promoting transparency in our reporting and business practices, we have elected to provide further information in the table below.





Category	Our key policies and standards	Additional information	
Environmental matters	<ul style="list-style-type: none"> • Responsibility Policy • Net Zero Carbon Pathway • Science-based carbon targets • United Nations Sustainable Development Goals (UN SDG) • Task Force on Climate-related Financial Disclosures (TCFD) • Streamlined Energy and Carbon Reporting (SECR) disclosure 	Responsibility Report	reports.derwentlondon.com/responsibility-2022
		Our pathway to net zero carbon	Page 27
		Climate change governance	Pages 66, 72 to 73
		Risk management	Pages 81 to 83 and 114
		Executive Directors' annual bonus	Page 216
		Executive Directors' LTIP 2023	Pages 191, 192 and 212
		UN SDGs	Page 68
		TCFD	Pages 72 to 85
		SECR	Page 69
Social and employee aspects	<ul style="list-style-type: none"> • Volunteer Policy • Equal Opportunities and Diversity Policy • Professional Development and Training • Shared Parental Leave • Smart Working Policy 	Community Fund	Page 57
		Our people	Pages 59 to 62
		Diversity and inclusion	Pages 60, 186 to 189
		Employees on a committee	Page 184
		The section 172(1) statement	Pages 131 to 133
Respect for human rights	<ul style="list-style-type: none"> • Individual Rights Policy • Health and Safety Policy Statement • Supply Chain Responsibility Standard • Modern Slavery Statement • Code of Conduct & Business Ethics 	Health and safety	Page 63
		Human rights	Page 66
		Modern slavery	Page 185
		Supply Chain Responsibility Standard	Page 185
Anti-bribery and corruption issues	<ul style="list-style-type: none"> • Anti-bribery Policy • Whistleblowing Policy • Expenses Policy • Money Laundering and Terrorist Financing Policy • Preventing Facilitation of Tax Evasion Policy 	Audit Committee report	Pages 156 to 169
		Risk Committee report	Pages 170 to 181
		Anti-bribery and corruption	Page 177
		Our principal risks	Pages 116 to 123
		Compliance training	Page 171

GOVERNANCE continued

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (UN SDG) DISCLOSURES

The UN SDGs are an international standard developed to support global change and sustainable growth. We believe that we have a role in supporting the UK in responding to this standard and helping positively affect change.

We have reviewed the suite of 17 goals and have selected those which align most closely to our ESG priorities and which are particularly significant to our business. These are set out in the table below along with a summary of our progress.

Our ESG priority	UN Goal	Applicable target	Applicable indicator	Our efforts
Creating value in the community and for our wider stakeholders	4. Quality education 	4.4	4.4.1	Through our Community Fund we invest in and support youth and adult ICT education and skills training – both technical and vocational. A recent example of this is our support for the work of Urban MBA which provides people aged between 19 to 25 with assistance to find employment. This is achieved through employability programmes and best-of-breed business courses to help them develop their ideas and start their own sustainable commercial and social businesses.
		4.a	4.a.1	Similar to the above, through our Community Fund we invest in and support projects which look to upgrade and improve youth education facilities. A recent example of this is our support of Society Links and their Study Support programme. Society Links is seen as a trusted hub within the community for services users and families. This particular programme supports children outside of school and targets low achievers helping them gain a strong grade in maths and avoiding the need to re-sit the exam. This in turn increases their confidence benefitting their success in other subjects.
Protecting human rights, Engaging and developing our employees	5. Gender equality 	5.1	5.1.1	Beyond any legislative requirement we are active in ensuring meaningful gender equality in our business. In addition to making sure our business structure is representative, we also seek to ensure our suppliers have the same policies and approaches in their businesses. To help guide us, our Diversity & Inclusion Working Group is tasked with reviewing best practice and to challenge our business to ensure we address equality robustly and maintain our National Equality Standard accreditation.
		5.5	5.5.2	27% (32% in 2021) of the women within our business are in managerial roles/positions.
Designing and delivering buildings responsibly, Managing our assets responsibly	7. Affordable & clean energy 	7.2	7.2.1	Our aim is to ensure we purchase renewable energy for our portfolio. As at 31 December 2022, all the electricity contracts which supply our buildings are REGO backed, and our gas supplies are RGGO backed. As part of our net zero carbon programme we are looking to develop our own off-site renewable energy generation capacity on our Scottish land. To date we have received resolution to grant planning permission for a c.100-acre solar park. We will be working to progress this in 2023.
		7.3	7.3.1	In addition to our science-based targets we have specific energy intensity reduction targets designed to help us improve the energy efficiency of our managed properties.
Creating value in the community and for our wider stakeholders	11. Sustainable cities & communities 	11.7	11.7.1	We actively promote the inclusion of public spaces in and around our buildings and ensure they are fully accessible to those with disabilities. In addition, we are part of the London Mayor's Business Climate Leaders Group which was set up to help London become a net zero carbon city by 2030.
Managing our assets responsibly	12. Responsible consumption & production 	12.5	12.5.1	We have established a portfolio-wide minimum recycling target of 75% and a no waste to landfill policy.
		12.6	12.6.1	We integrate comprehensive sustainability reporting information into our company reporting cycles and public reporting.
Designing and delivering buildings responsibly, Managing our assets responsibly	13. Climate action 	13.2	13.2.2	We have independently verified science-based carbon targets which are set to a 2°C reduction scenario, and are currently awaiting new, property-specific guidance from the SBTi such that we can re-base to a 1.5°C scenario. In addition, we have set embodied carbon and energy intensity reduction targets for our developments and managed properties respectively. This means we are committed to reducing our carbon emissions and making sure our portfolio is climate resilient.

STREAMLINED ENERGY AND CARBON REPORTING (SECR) DISCLOSURE

In line with the SECR regulations, we present below our disclosure which is comprised of our carbon emissions across Scopes 1 and 2 together with an appropriate intensity ratio – kgCO₂e/sqm. We have also set out our Scope 3 emissions and the global energy consumption (kWh) used to calculate our emissions.

We recognise the embodied carbon emissions associated with our asset regeneration activity, which is relevant for inclusion in the capital goods category, in the year in which projects complete. Three major and several smaller schemes completed in 2022, a higher level of completions than in 2021.

Energy efficiency actions

Average occupation levels across our buildings continued to rise as pandemic lockdown measures were revoked. Consequently, energy consumption levels are returning to those associated with more normalised occupancy. We do not expect energy consumption to return to pre-pandemic levels, in part due to our proactive occupier engagement which is helping raise awareness, whilst also providing practical assistance and information to help them reduce consumption on an ongoing basis. We have also continued to invest in a range of energy efficiency measures across the managed portfolio, including increasing/reducing temperature set-points in summer/winter respectively and continued roll out roof LED lighting in common areas and PIR sensors.

Scope 1 and 2 emissions

		tCO ₂ e 2022	2022 vs 2021 change	tCO ₂ e 2021	2021 vs 2020 change	tCO ₂ e 2020
Scope 1 (combustion of fuel)	Location-based	2,676	-16%	3,185	-4%	3,326
Managed portfolio gas use and fuel use in Derwent London owned vehicles						
	Market-based	2,007	-32%	2,965	-10%	3,291
Scope 1 (operation of facilities)		312		-		-
Managed portfolio refrigerant loss from air conditioning systems						
Total Scope 1	Location-based	2,988¹	-6%	3,185	-4%	3,326
Scope 2 (purchased electricity, heat, steam and cooling for our own use)	Location-based	1,503¹	-10%	1,670	-14%	1,947
Managed portfolio electricity use for common parts and shared services (landlord controlled areas) – no heat, steam or cooling was/is purchased						
Renewable REGO backed electricity	Market-based	28	-49%	55		0
Total Scope 1 and 2 emissions	Location-based	4,491	-7%	4,855	-8%	5,273
	Market-based	2,035	-33%	3,020	-8%	3,291
Total Scope 1 and 2 emissions intensity (kgCO₂e/sqm)	Location-based	11.6	-8%	12.6	-14%	14.6
Proportion that is UK-based		100%		100%		100%

¹ Selected metrics were subject to independent reasonable assurance by Deloitte LLP – see Data notes on page 71.

GOVERNANCE continued

Scope 3 emissions

Category	Notes	tCO ₂ e 2022	2022 vs 2021 change	tCO ₂ e 2021	2021 vs 2020 change	tCO ₂ e 2020
Purchased goods and services	N/A					
Capital goods	Embodied carbon emissions from projects that completed during 2022	32,869¹	3,073%	1,036	-95%	19,790
Fuel and energy-related activities		2,711	-12%	3,065	45%	2,118
Upstream transportation & distribution	N/A					
Waste management		39	56%	25	0%	25
Water		22	38%	16	-57%	37
Business travel		23	283%	6	-57%	14
Employee commuting	Measured but deemed to be de minimus	<5%		<5%		<5%
Upstream leased assets	N/A					
Downstream transportation & distribution	N/A					
Processing of sold products	N/A					
Use of sold products	N/A					
End-of-life treatment of sold products	N/A					
Downstream leased assets	Emissions from tenant electricity consumption	4,893	-4%	5,108	-8%	5,555
Franchises	N/A					
Investments	N/A					
Total Scope 3 emissions		40,557¹	338%	9,256	-66%	27,539
Total Scope 1,2 & 3 (excluding embodied carbon) emissions		12,178	-7%	13,074	0%	13,022
Total Scope 1,2 & 3 (excluding embodied carbon) emissions intensity (kgCO₂e/sqm)		31.4	-7%	33.8	8%	31.4

¹ Selected metrics were subject to independent reasonable assurance by Deloitte LLP – see Data notes on page 71.

Global energy use

	kWh 2022	Difference	kWh 2021	Difference	kWh 2020
Gas (combusted on a whole building basis)	14,633,956	-16%	17,351,169	-4%	18,069,846
Electricity (consumption from landlord controlled areas)	7,853,915	-1%	7,914,239	-6%	8,398,662
Electricity (consumption from tenant controlled areas)	25,302,791	5%	24,058,669	8%	22,315,697
Total energy (consumption from landlord areas for electricity and gas)	22,487,872	-11%	25,265,408	-5%	26,468,508
Total building energy (consumption from landlord and tenant controlled areas and gas)	47,790,663	-3%	49,324,077	1%	48,784,205

Data notes

Boundary (consolidation approach)	Operational control, based on our corporate activities and managed property portfolio all of which are in central London (UK) only.
Alignment with financial reporting	The only variation is that our GHG emission/energy data presented does not account for single-let properties or properties for which we do not have management control. This is because we have no control or influence over the utility consumption in these buildings. However, the rental income of these properties is included in our consolidated financial statements.
Reporting method	We arrange our GHG emissions reporting in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. For further details on our data calculation methodology please visit the data section of our annual Responsibility Report, which can be found at reports.derwentlondon.com/responsibility-2022/data-and-downloads#data-download .
Emissions factor source	DEFRA, 2021 & 2022 – https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting for all emissions factors apart from the Scope 2 market-based factor which is based on the provenance of our electricity supplies which are from renewable sources.
Restated 2021 figures	2021 figures have been restated as a result of the following: Data availability for energy which was not available at the time of reporting last year has now been stated. We have updated our energy intensity calculation. This is now normalised to the length of time the property was in the portfolio for that year as per our updated methodology, such that a more representative floor area for energy consumption is reported.
Market-based emissions	2021: The market-based gas figures have been restated using corrected market-based emissions factors for the portfolio which has subsequently been provided by our gas suppliers. 2022: Buildings which were on REGO-backed tariffs have had market-based carbon factors applied to them.
Embodied carbon	We report embodied carbon in the year a project completes. As such embodied carbon showed a large increase in 2022, as two of our largest developments completed in the year – The Featherstone Building EC1 and Soho Place W1.
Independent assurance	Selected 2022 metrics were subject to independent reasonable assurance under ISAE3000 (Revised) and ISAE3410 by Deloitte LLP. Their assurance opinion and our Environmental Basis of Reporting can be found within the Responsibility Report at reports.derwentlondon.com/responsibility-2022/data-and-downloads#data-download .

For more analysis of our GHG emissions, energy consumption and renewable energy generation, use and procurement visit the data section of our latest Responsibility Report.

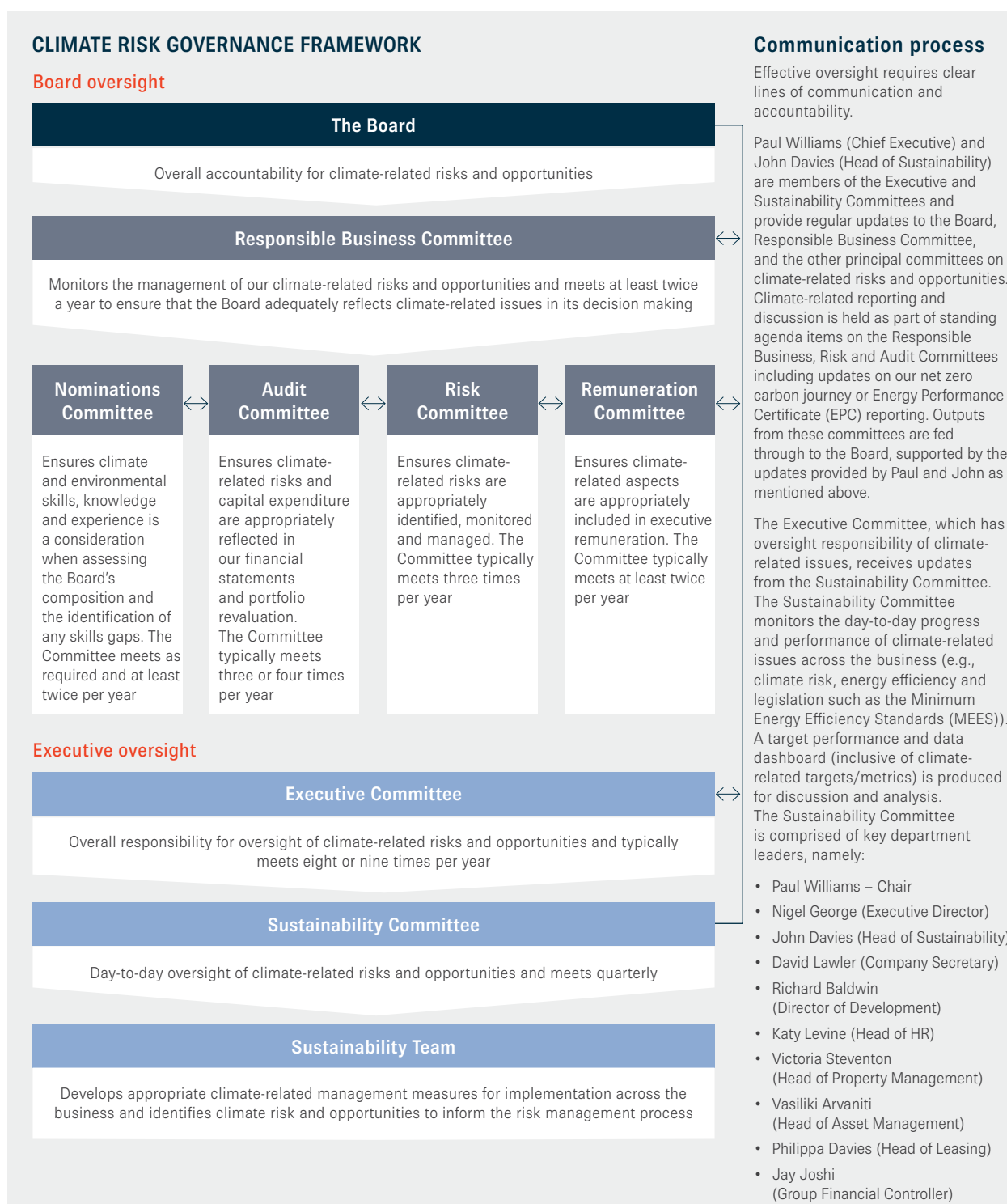
GOVERNANCE continued

2022 TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Governance

(a) Describe the board's oversight of climate-related risks and opportunities

Climate change is a material issue for our business. The Board has overall accountability for climate-related risks and opportunities, which it factors into its strategy discussions. The Board's governance framework allows for delegation of specific matters to the appropriate committees. As the risks and opportunities arising from climate change are likely to have an impact on various aspects of our business practices, all the Board's sub-committees are involved in the oversight of climate-related matters.



(b) Describe management's role in assessing and managing climate-related risks and opportunities

As Chief Executive, Paul Williams has overall accountability to the Board for climate-related issues. Paul Williams has delegated management oversight to Nigel George (Executive Director) and responsibility for implementation to John Davies (Head of Sustainability). Paul Williams oversees the review and performance as Chair of the Sustainability Committee and as a member of the Board, Executive and Responsible Business Committees. Nigel George also sits on the Board, Executive and Sustainability Committees. The Board is kept updated on climate-related issues through Paul Williams, Nigel George and presentations from John Davies and others within management.

John Davies has responsibility for developing and, together with his team, implementing the business-wide sustainability programme (inclusive of all climate-related aspects). John Davies reports directly to Nigel George and is a member of the Executive and Sustainability Committees. As a result, both Nigel and John have a comprehensive oversight of all our climate-related work.

As mentioned above, the Sustainability Committee comprises key department leaders many of whom have a responsibility for oversight and implementation of climate-related issues within their department. These include:

- David Lawler (Company Secretary) – is responsible for ensuring climate-related issues are adequately reflected within our corporate governance structure e.g. our risk management processes and Board and committee agendas.
- Richard Baldwin (Director of Development) – is responsible for ensuring our development schemes embed the required climate-related and net zero carbon aspects within their design and delivery programmes e.g. high EPC and BREEAM ratings.

- Victoria Steventon (Head of Property Management) – is responsible for ensuring our properties are operated efficiently e.g. building energy consumption is reducing in line with our energy targets.
- Vasiliki Arvaniti (Head of Asset Management) – is responsible (together with John Davies) for ensuring EPCs are tracked and monitored across the investment portfolio. Likewise, that our asset management plans incorporate the necessary improvement measures and budgets to facilitate our net zero carbon ambition and compliance with the forthcoming legislation e.g. EPC changes for 2030 under proposed MEES legislation.

As set out above there is 'top down, bottom up' oversight of climate-related aspects, from the Board to the Sustainability Committee. Target performance and data dashboards (inclusive of climate-related targets/metrics) are discussed and analysed during the Sustainability Committee and related sustainability performance meetings.

To embed a further level of oversight, we have linked climate-related performance measures into our Remuneration Policy for the Executive Directors' LTIP (see pages 191, 192 and 212).

LOOKING AHEAD

In 2023 we will look to:

- Expand our climate-related remuneration to all levels of the business
- Continue to build knowledge at Board level and support Executive/Non-Executive Directors in overseeing and addressing climate-related risks
- Continue to build knowledge at the executive and heads of department level to ensure climate-related risks and opportunities are better understood

GOVERNANCE ACTIONS DURING 2022

The Board	At the strategy awayday in June 2022, the Board received presentations on sustainability, ESG leadership and our progress to net zero carbon. In addition, the awayday was held in Scotland which allowed the Board to see first-hand how our Scottish assets are assisting with our sustainability initiatives.
Responsible Business Committee	Reviewed progress of our Net Zero Carbon Pathway programme and targets, and the updates to our transition and physical climate risk assessments carried out by Willis Towers Watson (WTW).
Risk Committee	Reviewed the latest position of the Group with regards to EPC compliance and our 2030 plans, and the updates to our transition and physical climate risk assessments.
Audit Committee	Reviewed the current progress of our green finance initiatives and the structure of our non-financial assurance work and received training on the latest TCFD disclosure requirements. In addition, the Committee (with members of the Responsible Business Committee) received training on carbon accounting and the latest climate-related regulations applicable to our business.
Remuneration Committee	Received a report on our carbon and energy intensity performance which was used to inform the performance metrics within the Executive Director annual bonus calculation (see page 216). As delivering on our net zero carbon commitments is a fundamental part of Derwent London's long-term strategy, the Committee considered it appropriate to introduce sustainability performance metrics (embodied carbon reduction and energy intensity reduction) within the Executive Directors' long-term incentive plan awards (PSP) for 2023, further information is on page 212.
Executive Committee	The Board agreed on the appointment of John Davies to the Executive Committee, effective from 1 January 2022, strengthening its climate-related risk expertise and experience.

GOVERNANCE continued

Strategy

(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term

Within our business we consider short, medium and long-term time horizons to be 0-5, 5-15 and 15+ years respectively (aligned to our corporate risk management approach), recognising that climate-related issues, in particular physical risks are often (but not exclusively) linked to the medium to long-term and that the properties within our investment portfolio have a long lifespan of many decades.

During 2022 we engaged Willis Towers Watson (WTW) to re-run our climate risk assessment and scenario analysis, which utilised a structured approach to identify the transition (risks related to the transition to a low carbon economy) and physical (risks related to the impact of climate e.g. storm damage) risks and opportunities applicable to our business and then apply three pre-defined climate scenarios to test the resilience of our business, strategy and financial planning.

Time horizon & climate scenario	Short-term Low Carbon World (~1.5°C)	Medium-term Current Policies Scenario (~2 to 3°C)	Long-term Hot House World Scenario (>4°C)
Temperature range	1.4°C (median, 2100, IEA NZE2050) ~1.5°C (median, 2100, RCP2.6)	2.6°C (median, 2100, IEA STEPS) ~2.3°C (mean, 2100, RCP4.5)	~4.2°C (mean, 2100, RCP8.5)
Sources	IEA – Energy Outlook 2021: NZE2050 IPCC, 2014: Synthesis Report: RCP2.6 SSP1	IEA – Energy Outlook 2021: STEPS IPCC, 2014: Synthesis Report: RCP4.5 SSP2	IPCC, 2014: Synthesis Report: RCP8.5 SSP5
Material risks & opportunities identified	<p>Transition risk</p> <ol style="list-style-type: none"> EPC rating requirements – increasingly stringent rating requirements by 2030. <p>Opportunity</p> <p>Improving buildings and spaces to meet more stringent EPC requirements and our net zero requirements align with market and customer demand for more sustainable space leading to better rental premiums. There are also operational cost savings that can be achieved from reduced energy intensity of more efficient spaces.</p> <ol style="list-style-type: none"> Emission offsets – increasing cost and constrained supply of appropriate carbon offsets. <p>Opportunity</p> <p>By extending the carbon removal projects (e.g. tree planting) on our Scottish portfolio we can reduce our reliance on the voluntary carbon market in the long-term and also develop a tradable asset base which could be sold on the voluntary market. However, our current strategy is to utilise these offsets for our own purposes.</p> <ol style="list-style-type: none"> Planning requirements – increasingly stringent planning and design requirements. Cost of raw materials – increasing cost of raw materials used in construction. <p>Physical risk</p> <ol style="list-style-type: none"> Windstorm – our London portfolio and Scottish land portfolios have a moderate exposure to damage and interruption from windstorm damage in this scenario. 	<p>Transition risk</p> <p>The risk impact and likelihood profiles for these risks are unchanged in this scenario/time horizon when compared to the low carbon world scenario. This is because strategically we are expecting to decarbonise in a shorter time frame compared to the current policy approach.</p> <p>Physical risk</p> <ol style="list-style-type: none"> Windstorm – within this climate scenario the current science is inconclusive on any material shifts to the intensity or frequency. Therefore the risk profile has been deemed to be broadly similar to that in the short-term. Flooding – all of our London portfolio assets are either out of risk zones or still protected by the Thames Barrier. Four agricultural assets in our Scottish portfolio are in flood zones of <100 year return period. As a result, flooding presents itself moderately in this scenario. 	<p>Transition risk</p> <p>Not modelled in this scenario/ time horizon.</p> <p>Physical risk</p> <ol style="list-style-type: none"> Windstorm – within this climate scenario the current science is inconclusive on any material shifts to the intensity or frequency. Therefore the risk profile has been deemed to be broadly similar to that in the medium term. Flooding – data suggests no change to exposure in this scenario when compared to the medium term. Drought – our London portfolio could see a moderate risk of drought, between three to four months per year. This is a notable increase over today's climate. Subsidence – increased susceptibility, with all the London portfolio having 'probable' increases and instability issues albeit current data models are limited and make it difficult to characterise its overall impact.

(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term continued

The transition risks were identified and tested against a 'Low Carbon World' (~1.5°C) climate scenario, whilst the physical risks were assessed against the same Low Carbon World and a 'Hot House World' scenario (>4°C). These scenarios were selected because transition risk is generally most severe under a low temperature rise scenario whereby the world transitions to a low carbon economy, whilst physical risks are most severe under a high carbon world where the world fails to transition and as a result experiences more physical risk. An additional 'Current Policies' (~2°C to 3°C) scenario was also used, to understand the resilience of our business to both physical and transition risk if the world follows the emissions trajectory we are headed for based on current policies/practice. The scenarios used for the physical risk modelling drew on Representative Concentration Pathways (RCPs), and the scenarios used for the transition risk assessment drew on the Shared Socioeconomic Pathways (SSPs) and the International Energy Agency (IEA) scenarios.

The transition risks have been assessed against a 2025 and 2030 time horizon, whilst physical risks have been assessed against a current, 2030 and 2050 time horizon because the most severe physical impacts are not expected to occur until the longer term. Details of the sources and key indicators of these are shown in the table on page 74.

Physical risks were modelled using specific climate risk assessment software/data models (see the Risk Management section for further details on the models used) using the scenarios mentioned above with input from our business in terms of property characteristics, financial data and energy consumption data. This process ultimately reviewed nearly 20 transition and physical issues and we have set out in the table below the material risks and opportunities, in terms of impact, likelihood (transition risk) and exposure (physical risk) as defined by and drawn from the assessment.

(b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

As a central London focused real estate investment trust (REIT) we invest in, develop and manage property in central London. We also have a portfolio of property and land holdings north of Glasgow, Scotland. As such, climate-related issues affect the way we develop new buildings, refurbish and manage our standing portfolio, and engage with our occupiers. This in turn affects the kinds of suppliers and consultants we use in these activities to ensure we have the requisite level of expertise. This is driven by an ever-increasing demand from our occupiers and other stakeholders wanting buildings with higher sustainability credentials, as well as the regulatory landscape becoming tougher and more demanding.

As a result, our business model, strategy and approach to financial planning clearly recognises this and is underpinned by our low carbon transition plan – our Net Zero Carbon Pathway, which guides our approach and sets the appropriate parameters for our business. Further detail on our pathway can be found at www.derwentlondon.com.

From the risk/opportunity identification above in section (a) we set out in the table below how those risks/opportunities then might impact our business, strategy and subsequent financial planning. Noting that as our business is based in and solely focused on the UK the risks/opportunities are not considered on an international and/or segmental basis.

MATERIAL RISK/OPPORTUNITY: EPC RATING REQUIREMENTS

Articulation	Likelihood and/or exposure	Potential financial impact on our business	Impact on strategy	Impact on financial planning
Current environmental regulation in the UK prevents leasing space with an Energy Performance Certificate (EPC) rating of worse than E. This is projected to increase to a rating of B by 2030. Given 65% of our current portfolio by ERV (as at 31 Dec 2022) is rated B or better this could be a significant risk.	Almost certain	In 2021 a third party report identified £97m of works to achieve 2030 EPC compliance across our London commercial portfolio. This has since been updated to reflect changes to Part L of the building regulations and 2022 cost inflation, increasing to £107m by the year end. Following the sale of 19 Charterhouse Street EC1 in January 2023, this has subsequently decreased to £99m.	The outputs from the study have been embedded into our asset management planning to ensure our strategy and decision making accurately reflects the required actions and investment. Likewise, keeping up with market and customer demand for properties which have a low energy intensity and are more efficient to operate.	The cost estimates were analysed to identify potential service charge items versus direct capital expenditure, and consideration was given to costs reflected in our forecasts. In their December 2022 external valuation, Knight Frank made a specific deduction of £58.4m for identified EPC upgrade works across the portfolio. In addition, further amounts were allowed for general upgrades. These cost breakdowns are now regularly monitored and reported internally on progress made.

GOVERNANCE continued

MATERIAL RISK/OPPORTUNITY: EMISSION OFFSETS

Articulation	Likelihood and/or exposure	Potential financial impact on our business	Impact on strategy	Impact on financial planning
<p>As more companies commit to net zero, the demand for high quality carbon removal offsets is increasing, resulting in higher prices.</p> <p>There is also an increasing reputational risk associated with the use of emission offsets if carbon offsetting is chosen as the only net zero measure instead of focusing on reducing energy consumption/emissions first.</p>	Almost certain	<p>Scenario 1: lower estimate, assuming residual Scope 1 and 2 emissions (for gas and electricity) are a combined 757 tCO₂e i.e. those emissions that remain after considering renewable electricity and gas use; that embodied carbon targets are met; and that other Scope 1 emissions e.g. refrigerant emissions reduce:</p> <p>In 2025: ~£450k per annum In 2030: ~£800k per annum</p> <p>Scenario 2: higher estimate, based on possible more stringent regulations surrounding green tariffs and assuming residual emissions for gas and electricity are each reduced by 24% in 2025 and by 44% in 2030 from 2019 levels; that other Scope 1 emission types reduce; and that embodied carbon targets are met:</p> <p>In 2025: ~£750k per annum In 2030: ~£1.1m per annum</p> <p>(The above are estimated on projected IEA NZE2050 carbon prices used as a conservative proxy: £62 per tonne in 2025 and £108 per tonne in 2030. Current voluntary carbon market prices for carbon removal schemes as at 31 December 2022 range from £20-£40 per tonne.)</p>	<p>To offset our development-based residual embodied carbon we use carbon removal offsets purchased from the voluntary carbon market. Our development appraisals include a cost of carbon for these offsets, currently set at £25 per tonne with an annual inflation factor of 10% applied. This is then complemented by our embodied carbon targets (commercial office new build developments completing from 2025: ≤600 kgCO₂e/m² and completing from 2030: ≤500 kgCO₂e/m²) which aim to drive down the amount of embodied carbon on scheme completion and subsequently the need for and cost of offsetting.</p> <p>In reducing our reliance on the voluntary market our strategy has also been to utilise our Scottish land to create our own offsets, initially via tree planting schemes. Nearly seven years ago we planted over 30Ha of woodlands which has already generated 127 Woodland Carbon Code verified carbon credits and we are exploring how to increase this further. Our ambition is to be as self-sufficient with our offsetting as possible to meet our long-term needs and increase the transparency and robustness of the offsets we use.</p> <p>We are currently reviewing our offsetting strategy for the operational emissions of our investment portfolio which will be described and quantified in subsequent disclosures once agreed. Like embodied carbon we have put energy intensity reduction targets in place for properties in our managed portfolio which look to reduce intensity by 4% year-on-year, from our 2019 baseline out to 2030. These are designed to ensure (alongside our renewable energy procurement) that we drive down operational carbon as much as possible. This will be further strengthened when our energy and embodied carbon targets will be incorporated into our next Performance Share Plan (PSP) award grant in 2023.</p> <p>Within the financial impact analysis shown in the previous column we did include operational carbon to understand its likely contribution/impact.</p>	<p>The carbon price and inflation factor included within our development appraisals ensure we are robustly mapping the possible financial impact and reducing exposure to future demand-led price movements. In addition, by investing in our own offsetting we can reduce our development-based carbon expenditure over the longer term.</p>

MATERIAL RISK/OPPORTUNITY: PLANNING REQUIREMENTS

Articulation	Likelihood and/or exposure	Potential financial impact on our business	Impact on strategy	Impact on financial planning
<p>It is highly likely that the UK will need to incrementally increase the stringency of building planning and design requirements as part of its efforts to meet its net zero targets. This would affect our development pipeline, including increasing development costs to ensure all new buildings are net zero carbon ready.</p>	<p>Almost certain</p>	<p>As the impact on cost is primarily associated with compliance, we are assuming acceptance to incorporate these costs into our appraisals. Our current estimations show that approximately 5% to 10% of our development costs are associated with net zero carbon ready items.</p>	<p>Our business strategy is aligned to, and takes account of, the latest changes and requirements, with our Responsible Development Framework and Net Zero Carbon Pathway ensuring we set the right design brief for our development pipeline. They ensure that the properties are more climate resilient such that they are built for a longer life, are more flexible to occupy and operate, less reliant on mechanical cooling and free from fossil fuel use i.e. all electric heating and cooling.</p> <p>Our EPC 2030 study also helps to inform the significant asset management programme we have which is also governed by our Responsible Development Framework.</p>	<p>The requirement to be net zero ready is already factored into our development appraisal process and ensures we have a more robust level of cost certainty and financial forecasting ability.</p> <p>Access to the right kind of good quality, affordable finance is also important to enable us to deliver our development pipeline effectively and demonstrate how we are addressing and effectively managing climate risk. In response, our Green Finance Framework has been specifically developed to allow us to link our debt to our net zero ambitions by setting out performance criteria and a governance framework which clearly show the link between the use of our new debt and our development and refurbishment activities. To date we have two specific debt facilities which are linked to our framework – the £300m 'green' tranche of our main corporate £450m revolving credit facility and a £350m Green Bond issued in 2021. These are being used to part-fund our latest eligible projects – see pages 106 to 107 for further details.</p>

GOVERNANCE continued

MATERIAL RISK/OPPORTUNITY: COST OF RAW MATERIALS

Articulation	Likelihood and/or exposure	Potential financial impact on our business	Impact on strategy	Impact on financial planning
There is a risk of increased development cost if the construction value chain passes the impact of carbon pricing for high carbon building materials such as steel and cement onto us.	Almost certain	<p>If carbon taxation imposed on raw materials suppliers was passed through to us via increased prices, two 'pass through' scenarios were mapped to provide a low and high-cost range estimate:</p> <p>By 2025: ~£200k – £400k per annum</p> <p>By 2030: £350k – £700k per annum.</p> <p>(The above are estimated on projected IEA carbon prices used as a conservative proxy: £62 per tonne in 2025 and £108 per tonne in 2030. The lower figure in the range in each year assumes 50% of the tax impact is passed through and the higher figure assumes 100% is passed through.)</p>	As mentioned above, our Responsible Development Framework and Net Zero Carbon Pathway ensure we set the right design brief for our development pipeline. Included within this are stringent embodied carbon requirements and reduction targets. These drive us to explore lower carbon materials and methods of construction which in turn should assist us in reducing the significance of the impact created by such carbon-related cost increases. However, we recognise that the transition time frame and subsequent availability of these lower carbon materials is not yet entirely clear in some instances. As a result it could mean it takes longer to realise the use of such materials in our developments.	Whilst the increased cost of raw materials cannot be borne solely by customers, the market has seen price increases to key material groups, albeit not necessarily exclusively linked to sustainability-related drivers. In line with our approach to embodied carbon we continue to engage with our principal contractors and Tier 1 suppliers on the impacts of using traditional materials and moving to less carbon intensive materials, and the implications of doing so e.g. availability, cost and supply chain knowledge.

MATERIAL RISK/OPPORTUNITY: WINDSTORM

Articulation	Likelihood and/or exposure	Potential financial impact on our business	Impact on strategy	Impact on financial planning
Damage to our buildings from windstorm damage primarily caused by flying debris.	Moderate to high exposure	Expected losses could be £2.6m with a 10% probability in 10 years (based on a 1-in-100-year return period or 'bad year' event).	Overall, the impact of windstorms on our portfolio does not impact our business strategy, but instead helps us to ensure we have the right building maintenance and management measures in place.	Whilst the probabilistic modelling showed a possible loss of approximately £2.6m, based on a 10% probability over the next 10 years we currently don't believe that it will impact our financial planning. Any recommendations from the climate assessment will then be fed into our Property Management plans and planned preventive maintenance schedules.

MATERIAL RISK/OPPORTUNITY: FLOODING

Articulation	Likelihood and/or exposure	Potential financial impact on our business	Impact on strategy	Impact on financial planning
Loss and damage to our assets which are located in high flood risk zones.	Low to moderate exposure	Expected losses could be £3.5m with a 10% probability in 10 years, related to four agricultural assets in our Scottish portfolio (this only occurs in a Hot House World Scenario (>4°C).	Like windstorm, the risks from flooding do not impact our overall business strategy, albeit we are likely to undertake a greater level of due diligence during the acquisition process given future purchase targets could potentially be in flood zones.	To ensure we understand the flood risk of potential new acquisitions our due diligence procedures will need to be enhanced to account for a greater level of flood mapping to ensure we aren't introducing higher levels of risk and loss exposure into the portfolio.

Note: drought and subsidence risks have not been included above due to there being no clear financial quantification models available within the datasets used.

(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

As a REIT our properties are subject to climate-related risks such as increasing temperatures which could lead to greater physical stresses. Our business model/strategy involves both investing in new developments and acquiring older properties which hold future regeneration/income potential. We ensure a high degree of resilience in our new developments and regeneration of older properties by setting high standards for sustainability, which includes climate-related aspects. When managing our core income portfolio, we have a significant focus on energy and carbon reduction (as dictated by our energy intensity reduction targets), ensuring our buildings operate as efficiently as possible.

As a result, our strategy centres around the concept of continual improvement which ensures a high degree of both climate and financial resilience. Ultimately, we do not envisage having to make changes to our overall approach when considering climate-related scenarios.

Like previous sections, the table below maps out the material risks and opportunities drawn from our latest assessment and the resilience of our strategy to the three different climate scenarios used in the assessment. Of the risks identified, none were deemed likely to have a substantial impact such that the viability of our business would be interrupted, although our cost profile could increase.

Scenario	Short-term Low Carbon World (~1.5°C) ~1.5°C (median, 2100, RCP2.6)	Medium-term Current Policies Scenario (~2 to 3°C) ~2.3°C (mean, 2100, RCP4.5)	Long-term Hot House World Scenario (>4°C) ~4.2°C (mean, 2100, RCP8.5)
Material risks & opportunities identified	<p>Transition risk EPC rating requirements</p> <p>In this scenario, it is assumed the minimum EPC rating of B will be in place and it will cost us £107m out to 2030 to ensure we meet these requirements, although since the year end this has reduced to £99m after disposals.</p> <p>To address the impact of this risk on our profit and loss, the EPC 2030 study we commissioned addressed each affected property in the portfolio and set a clear, costed plan on how to achieve the new minimum rating.</p> <p>However, there is a clear opportunity in that market and occupier demand for more sustainable space is leading towards better rental premiums. Likewise, there are also operational cost savings that can be achieved from reduced energy intensity of more efficient spaces.</p> <p>Emission offsets</p> <p>In this scenario, UK net zero emissions will be deemed to have been met by 2050. This could lead to a significant increase in pricing of voluntary offsets as demand grows as more companies seek to meet net zero targets by offsetting residual emissions.</p> <p>Using projected IEA carbon prices of £108 as a proxy for the price of a carbon offset by 2030 this could have a projected impact of £800,000 to £1,100,000 per annum.</p> <p>Over the long-term and to reduce the impact on our balance sheet, extending the carbon removal projects (e.g. tree planting) on our Scottish portfolio will help to reduce our reliance on the voluntary carbon market. However, in this scenario we are unlikely to realise the full value straight away given such projects take time to yield a significant number of credits.</p>	<p>Transition risk EPC rating requirements</p> <p>In this scenario, it is assumed there would be no increase in EPC requirements. However, with our strategy we would still look to retrofit and improve our properties in line with our net zero strategy and overall business model. Likewise, to take advantage of market demand and occupier preference opportunities.</p> <p>Emission offsets</p> <p>In this scenario, the price of voluntary offsets is anticipated to rise as demand grows as some companies seek to meet net zero targets by offsetting residual emissions. However, the assumption is that the price does not increase by as much as under the Low Carbon World scenario. The increase in pricing of voluntary offsets is assumed to be in line with the projected carbon price.</p> <p>Using the IEA STEPS scenario and assuming the UK implements a carbon price of \$65 (£54) by 2030 in line with stated EU prices this could have a projected impact of £400,000 to £570,000 per annum.</p> <p>It is assumed the opportunities available on our Scottish portfolio remain the same.</p>	<p>Transition risk</p> <p>Not modelled in this scenario/time horizon.</p> <p>Physical risk</p> <ol style="list-style-type: none"> Windstorm – within this climate scenario there was no scientific evidence to suggest that intensity or frequency would increase significantly, therefore the risk profile has been deemed to be broadly similar to that in the medium-term. Flooding – data suggests no change to exposure in this scenario. Drought – our London portfolio could see a moderate risk of drought, between three to four months per year, a notable increase over today's climate. Subsidence – there is increased susceptibility of subsidence, with all the London portfolio having 'probable' increases and instability issues in line with the wider London area.

GOVERNANCE continued

Scenario	Short-term Low Carbon World (~1.5°C) ~1.5°C (median, 2100, RCP2.6)	Medium-term Current Policies Scenario (~2 to 3°C) ~2.3°C (mean, 2100, RCP4.5)	Long-term Hot House World Scenario (>4°C) ~4.2°C (mean, 2100, RCP8.5)
Material risks & opportunities identified continued	<p>Planning requirements</p> <p>In this scenario, it is assumed that the UK will need to increase the stringency of building planning and design requirements as part of its efforts to meet its net zero targets. Our strategy already reflects this expected move – primarily via the introduction of our Net Zero Carbon Pathway back in July 2020. We have estimated the cost impact of our pathway on our developments with approximately 5% to 10% of our development costs associated with net zero carbon requirements.</p> <p>As described above there is a clear opportunity in that market and occupier demand for more sustainable space is leading towards better rental premiums. As a result, we will look to take advantage of this opportunity and ensure our properties are aligned.</p> <p>Cost of raw materials</p> <p>In this scenario, there is expected to be increased cost of high carbon raw materials such as steel, cement and glass, which would be further impacted by a carbon tax.</p> <p>Price increases set out in the table on page 76 derive from the assumption that suppliers pass on 50-100% of their exposure to high carbon taxation via increased prices.</p> <p>Physical risk</p> <ol style="list-style-type: none"> Windstorm – our London and Scottish land portfolios have a moderate exposure to damage and interruption from windstorm damage in this scenario. 	<p>Planning requirements</p> <p>In this scenario, it assumes there are no changes to existing planning requirements. Therefore, whilst we will have to ensure we meet planning regulations, there will be no new, more stringent regulations introduced. However, we would still intend to follow our Net Zero Carbon Pathway and therefore the impact and likelihood of this risk remains the same. In addition, this is supported by market and occupier demand for more efficient spaces which we would look to take advantage of.</p> <p>Cost of raw materials</p> <p>In this scenario, the increase in cost of key materials is anticipated to be substantially lower than in the Low Carbon World scenario. Price increases set out below derive from the assumption that suppliers pass on 50-100% of their exposure to high carbon taxation via increased prices.</p> <p>Using the IEA STEPS scenario and assuming the UK implements a carbon price of \$65 (£54) by 2030 in line with stated EU prices this could have a projected impact of £170,000 to £340,000 per annum.</p> <p>Setting robust embodied carbon reduction targets drives us to explore lower carbon materials and methods of construction which in turn should assist us in reducing the significance of the impact created by such carbon-related cost increases on our profit and loss.</p> <p>Physical risk</p> <ol style="list-style-type: none"> Windstorm – within this climate scenario there was no scientific evidence to suggest that intensity or frequency would increase significantly, therefore the risk profile has been deemed to be broadly similar to that in the short-term. Flooding – all of our London portfolio assets are either out of risk zones or are protected by the Thames Barrier. Four agricultural assets in our Scottish portfolio are in flood zones of <100-year return period. As a result, flooding presents itself as a moderate risk in this scenario. 	

STRATEGY ACTIONS DURING 2022

2030 EPC assessment	Since undertaking our EPC 2030 study we have embedded the suggested actions into our asset management and refurbishment programmes. We have also assessed the proportion of costs which are capex/service charge recoverable and given consideration to the costs included in our forecasts and external valuations.
Offsetting	We continued our assessment of further tree planting sites on our Scottish portfolio, as well as other carbon removal projects such as peatland restoration.

LOOKING AHEAD

In 2023 we will look to:

- Expand and finalise our carbon removal projects in Scotland
- Continue with the detailed design and project management of our proposed solar park
- Continue to refine our EPC 2030 actions and cost apportionments to ensure we remain on track. This is picked up through our five-year asset management strategies which include plans for efficient operation and/or upgrade of our assets
- Look to incorporate the physical risk analysis into the appropriate property and asset management planning activities

Risk management

- (a) Describe the organisation's processes for identifying and assessing climate-related risks.
- (b) Describe the organisation's processes for managing climate-related risks.
- (c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Owing to their complex nature, the identification and assessment of climate-related risks and opportunities are undertaken with the support of third party expertise. During the year under review, Willis Towers Watson (WTW) were engaged to perform an update to their climate risk assessment and climate scenario analysis which was first conducted in 2020.

Process

Transition risks were identified and assessed via a workshop facilitated by WTW with senior cross-functional representation from across Derwent London. The risks were then identified, assessed and challenged in terms of impact and likelihood, and then set into context based on the latest regulatory updates and WTW's experience with the real estate sector. The financial impact (whether to the balance sheet or income statement) was estimated, and likelihoods assessed on an annualised basis and aligned to our risk rating criteria (see page 174). High and low impact estimates were assigned to applicable cost components, depending on the success of planned mitigating actions, and risks given a '1 to 5' impact rating according to a defined rating criterion. Working through the assessment process, we applied mitigation measures already captured within the scope of our Net Zero Carbon Pathway and those within our existing business processes, to define our residual risk profiles.

Physical risks were identified and assessed through an asset-by-asset exposure analysis using a range of acute and chronic climate hazards (risks). The scenarios were tested as at the present day, as well as for future projections under three climate scenarios (see below). This was supplemented by a climate risk modelling analysis for flood and windstorms. Physical assets were considered 'exposed' if they were in an area where a climate hazard may occur.

The degree of exposure was defined by the severity/intensity of that hazard, with each hazard having its own intensity scale. If an exposure was deemed to be moderate or above (i.e. scored 3 out of 5 or above) it could have a material impact. It should be noted that the scores were based on a global scale. For the UK, a modest increase in a chronic hazard, such as heat-stress (heatwaves), from 'very low' to 'low' could have wider implications on properties and infrastructure.

Once the risks and opportunities had been identified, they were tested against various climate scenarios. The key considerations in the scenario analysis were:

- **Forecasting:** scenarios are not intended to be forecasts of the future, rather a way to imagine plausible states of the world and plan for our resilience.
- **Balance:** they should have aspects of quantification, but not so much it impairs strategic thinking.
- **Challenge:** they must ensure we challenge our own thinking about our organisation and business model.
- **Certainty:** some drivers within the scenarios may be relatively certain and predictable whilst others highly uncertain as to their development and impacts over time.
- **Number:** the resilience of our strategy should be investigated under multiple scenarios, including a '2°C or lower' scenario.

Scope

The scope of the 2022 assessment included our entire London-based investment portfolio (including our head office) and our Scottish land. In our 2020 assessment, we did not include our land in Scotland.

GOVERNANCE continued

Climate scenarios (for both physical and transition risk), transition assumptions and physical risk data sources used

Scenario Name	Low Carbon World (~1.5°C)	Current Policies Scenario (~2 to 3°C)	Hot House World Scenario (>4°C)
Temperature range	1.4°C (median, 2100, IEA NZE2050) ~1.5°C (median, 2100, RCP2.6)	2.6°C (median, 2100, IEA STEPS) ~2.3°C (mean, 2100, RCP4.5)	~4.2°C (mean, 2100, RCP8.5)
Sources	IEA – Energy Outlook 2021: NZE2050 IPCC, 2014: Synthesis Report: RCP2.6 Narratives for SSPs*: SSP1	IEA – Energy Outlook 2021: STEPS IPCC, 2014: Synthesis Report: RCP4.5 Narratives for SSPs*: SSP2	IPCC, 2014: Synthesis Report: RCP8.5 Narratives for SSPs*: SSP5
Primary risks			
	Transition risks (2025 and 2030)	Moderate transition (2025 and 2030) and physical risks (current, 2030, 2050)	Physical risks (current, 2030, 2050)
Underlying assumptions			
Global net zero achieved by:	2050 (IEA NZE2050)	Not achieved before 2100 (IEA STEPS)	Not achieved
Carbon price	Advanced economies: 2025, 2030, 2040, 2050 \$75/tonne; \$130/tonne; \$205/tonne; \$250/tonne (IEA NZE2050)	EU: 2030, 2040, 2050 \$65/tonne; \$75/tonne; \$90/tonne (IEA STEPS)	No carbon pricing in existence (SSP5)
Building sector policies	Implementation of more stringent building energy conservation building codes for existing and new buildings, including net zero emission requirements by 2030 and 85% of all buildings are zero carbon-ready in 2050. (IEA NZE2050)	In the UK, Low Carbon Heat Support and Heat Networks Investment Project; various retrofit incentive schemes for improving buildings efficiency as part of Plan for Jobs. It does not however assume increasing stringency of EPC requirements. (IEA STEPS)	Assumes current policies promoting sustainability are removed. (SSP5)
Social assumptions	Assumes low growth in material consumption and increasing consumer pressure on businesses to drive sustainability. (SSP1)	The world follows a path in which social, economic, and technological trends do not shift markedly from historical patterns. Global and national institutions work toward but make slow progress in achieving sustainable development goals. (SSP2)	The push for economic and social development is coupled with the exploitation of abundant fossil fuel resources and the adoption of resource and energy intensive lifestyles around the world. (SSP5)
Technology assumptions	Promotion of alternative fuels and technologies such as hydrogen, biogas, biomethane and carbon capture, utilisation and storage across sectors. The share of renewables by 2030 in the global electricity supply would increase to approximately 61%, shifting economies from being fossil fuel dependent to renewable energy driven. (IEA NZE2050)	Phase out of traditional coal-fired power by 2024 in the UK and the Ten Point Plan, with up to 40 GW offshore wind capacity by 2030. Electrification component of the 6th Carbon Budget and Industrial Energy Transformation Fund provides grant funding for energy efficiency projects. (IEA STEPS)	Little to no development in low carbon technology. (SSP5)
Physical risk data sources	Willis Towers Watson's Global Peril Diagnostic and Climate Diagnostic Tools, data from the MunichRe hazard databases, and the Intergovernmental Panel of Climate Change (IPCC). For the climate loss modelling the catastrophe model from RMS (Risk Management Solutions) was used.		

How we integrate climate risk into our overall risk management approach

We identify and monitor climate change risks as part of our wider risk management procedures which are overseen by the Board and its principal committees (see pages 114 and 174 to 175). Although the Board has ultimate responsibility for the Group's robust risk identification and management procedures, certain risk management activities are delegated to the level that is most capable of overseeing and managing the risks. Our risk management structure is on page 176. Throughout the year, the Executive Committee reviews the Group's risk registers, which include sustainability/climate change related risks. These reviews consider the risk severity, likelihood and the internal controls and/or mitigation actions required to reduce our risk exposure, so that it is aligned with or below our risk appetite. This approach allows the effects of any mitigating procedures to be considered properly, recognising that risk cannot be eliminated in every circumstance.

The Board reviews and approves the Group's risk registers on at least an annual basis and they are subject to review by the Risk Committee at each of its meetings. Due to its importance, changes to the Schedule of Principal Risks can only be made with approval from the Risk Committee or Board (changes made to our principal risks during 2022 are on page 113). Climate-related topics are included on the agenda of each meeting of the Responsible Business Committee and the Sustainability Committee. The climate risk governance framework on page 72 details the frequency of the committee meetings.

Climate resilience has been classified as a principal risk for the Group and is contained on our Schedule of Principal Risks (see page 122). Emerging climate-related risks are monitored via our Schedule of Emerging Risks (see pages 124 and 125). At 31 December 2022, we monitor three climate-related emerging risks which relate to Energy Performance Certificate (EPC) compliance, renewable energy and the importance of ESG-related concerns to our key stakeholders. We define an emerging risk as a condition, situation or trend that could significantly impact our financial strength, competitive position or reputation within the next five years. Emerging risks can involve a high degree of uncertainty and are therefore factored into the Board's viability assessment and strategic planning process.

LOOKING AHEAD

In 2023 we will look to:

- Embed the results of the latest climate risk analysis into our portfolio management
- Review the Group's risk registers to ensure they reflect all of the Group's material climate-related risks

RISK MANAGEMENT ACTIONS DURING 2022

Oversight provided by the Risk Committee	<ul style="list-style-type: none"> • Regular updates on Willis Towers Watson's climate risk assessment. • Received an update on the availability and cost of sourcing renewable energy (see page 125). • Updated on the work performed by the Sustainability, Development and Asset Management teams to upgrade the EPC ratings of our buildings.
Oversight provided by the Audit Committee	<ul style="list-style-type: none"> • Considered the impact of ESG credentials and EPC capital expenditure on the portfolio valuation (see page 158). • Received an update from Deloitte on its assurance work performed on our key ESG data (see pages 158 and 163) • Both the Risk and Audit Committee received training on climate-related disclosures provided by Deloitte in November (see page 158).

GOVERNANCE continued

Metrics and targets

(a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

We set out in the table below a range of metrics that reflect those highlighted in the TCFD buildings and materials group selected metrics and indicators guidance. In addition, to enable our stakeholders to further understand our performance with regards to climate-related issues, the data section within our annual Responsibility Report includes an extensive range of consumption and intensity metrics for energy, carbon, waste and water.

Financial category	Climate-related category	Metric	Unit of measure	2022	2021	2020	Applicable risks and opportunities	Risk timescales			
Assets	Risk Adaptation & Mitigation	Percentage of portfolio with an EPC rating of A	% of ERV	9%	6%	6%	EPC rating requirements	Short to medium-term			
		Percentage of portfolio with an EPC rating of B	% of ERV	45%	35%	31%					
		Percentage of portfolio with an EPC rating of C	% of ERV	20%	18%	24%					
		Percentage of portfolio with an EPC rating of D	% of ERV	9%	14%	21%					
		Percentage of portfolio with an EPC rating of E	% of ERV	4%	6%	9%					
		Percentage of portfolio with an EPC rating of F	% of ERV	0%	0%	1%					
		Percentage of portfolio with an EPC rating of G	% of ERV	0%	0%	0%					
		Properties in development	% of ERV	12%	19%	0%					
		Exempt/ under review/ outstanding	% of ERV	1%	2%	8%					
				Percentage of portfolio which is BREEAM certified	% by floor area (total portfolio NIA%)	34%			30%	32%	Planning requirements
		Percentage of portfolio which is LEED certified	% by floor area (total portfolio NIA%)	13%	9%	9%					
Expenditures	Energy/Fuel	Total energy consumption	kWh	47,790,663	49,324,077	48,784,205	Cost of raw materials, emission offsets	Short to medium-term			
		Proportion of energy consumed from renewable sources	% of energy	92%	71%	63%					
	Energy/Fuel	Total electricity consumption	kWh	33,156,706 ¹	31,972,908	30,714,359					
		GHG Emissions	Proportion of electricity consumed from renewable sources	% of energy	98% ¹	97%			100%		
	Total fuel consumption (gas)		kWh	14,633,956 ¹	17,351,169	17,896,075					
	Proportion of fuel consumed from renewable sources		% of energy	79% ¹	22%	1%					
	Total building energy intensity		kWh/m ²	123 ¹	128	135					
	GHG emissions intensity from buildings (location-based)		tCO ₂ e/m ²	0.0234	0.0258	0.0300					
	GHG emissions intensity from buildings (market-based)		tCO ₂ e/m ²	0.0054	0.0081	0.00922					
	Water	Total water consumption	m ³	150,072 ¹	107,864	95,719			Drought, flooding, planning requirements	Medium to long-term	
		Building water intensity	m ³ /m ²	0.41 ¹	0.29	0.26					
	Risk Adaptation & Mitigation Remuneration	Expenditures (capex) for carbon offsets from the voluntary carbon market (carbon removals)		£	£410,863	£12,950			£247,375	Emission offsets	Short, Medium to long-term
			Percentage of Executive Director annual bonus calculation linked to climate-related aspects	% of bonus	7.5%	7%			5%		

NB: the above utility/carbon-based data points relate to our managed property portfolio only. For further details on the make-up of this portfolio and our entire investment portfolio please see our environmental data basis of reporting set out in our latest annual Responsibility Report.

¹ Selected metrics were subject to independent reasonable assurance by Deloitte LLP.

In addition to the above metrics we also use our science-based carbon targets and Net Zero Carbon Pathway to support us in the strategic planning of our portfolio and undertake future projections of carbon intensity reductions. For more information on our progress against these please see pages 52 to 56 and our Responsibility Report.

(b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

We publish a detailed data report which sets out our environmental data performance. This includes extensive carbon reporting across all scopes: Scopes 1, 2 and 3 calculated using the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. Likewise, we provide at least three years to show progress/historical performance and allow for trend analysis. Please refer to the data report of our latest Responsibility Report which also includes full details of the aggregation and calculation methodology. Moreover, we publish a full breakdown of our corporate carbon footprint (inclusive of Scopes 1, 2 & 3) in our Streamlined Energy and Carbon Reporting (SECR) disclosure on page 69.

(c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

In addition to the metrics and targets set out in section (a), we developed a set of science-based carbon targets to ensure our carbon reduction programme is aligned to its objectives, as well as minimising our risk exposure to climate change on our managed portfolio. These targets, aligned with a 2.0°C climate warming scenario, were verified by the Science Based Targets initiative (SBTi) in 2019 and are:

“To reduce Scope 1 and 2 GHG emissions by 55% per square metre by 2027 from a 2013 base year” and “To reduce Scope 3 GHG emissions 20% per square metre by 2027 from a 2017 base year.”

To see the latest progress against these targets and the progress across our Net Zero Carbon Pathway, please see our latest Responsibility Report. As part of our net zero ambition, we will be reviewing these targets to align them with a 1.5°C climate warming scenario and we will provide further updates when this is complete.

Compliance statement

In line with the Financial Conduct Authority Listing Rules, we believe our climate-related financial disclosures for the financial year ended 31 December 2022 are consistent with all the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and Recommended Disclosures. When assessing the consistency of our disclosures, we have had due regard for all relevant guidance including the TCFD’s Guidance for All Sectors. We also provide the same disclosures within our annual Responsibility Report reports.derwentlondon.com/responsibility-2022 together with our more granular, detailed climate-related data sets and performance metrics which we refer to within our disclosures on pages 72 to 85. The Responsibility Report provides the more granular data behind the figures and methodology that are presented in this report and disclosure. We report this way to satisfy the variety of stakeholders we have and for those who want a more detailed data breakdown which the Responsibility Report provides.

Climate change is a material issue for our business as identified in our sustainability materiality matrix reports.derwentlondon.com/responsibility-2022/about#materiality and is also included as a risk in our principal risk register (see pages 116 to 123). We deem an issue to be ‘material’ when it is assessed as being sufficiently important to both our business and our stakeholders. A formal four-step process – identification, prioritisation, validation and review – is used to determine the issues within our sustainability materiality matrix which in turn informs the population of our risk register. As a result we believe the disclosures we have provided on pages 72 to 85 are comprehensive within each of the four recommendations and 11 recommended disclosures.

PROPERTY REVIEW

OUR BUILDINGS
ARE OUR BRAND

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Tea Building E1

VALUATION

NIGEL GEORGE

Executive Director



As reported with our H1 2022 results, we have changed our external valuer from CBRE to Knight Frank. At least half of our London assets were valued by Knight Frank at H1 and for the year-end valuation they were appointed on all the London assets. Our Scottish land, less than 1% of the Group's portfolio, continues to be valued by Savills.

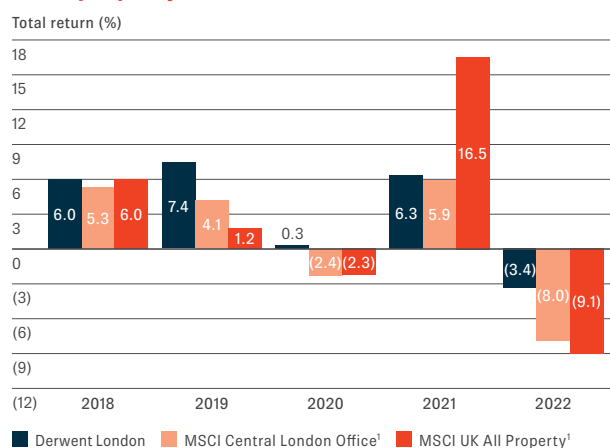
The Group's investment portfolio was valued at £5.36bn as at 31 December 2022. There was a deficit for the year of £401.8m which, after accounting adjustments of £29.1m, produced a decline of £430.9m including our share of joint ventures. On an underlying basis the portfolio decreased 6.8%, following a 3.5% uplift in 2021.

This primarily reflected the weakening economy, with inflation and interest rates rising significantly in the second half. This had a direct impact on the commercial property sector with valuation yields moving out. Accordingly, the positive H1 valuation of 1.4% reversed in H2 to an 8.0% decline. Rental values generally held up with office occupiers seeking better quality, environmentally attractive accommodation, which is in short supply.

By location, our central London properties, which represent 99% of the portfolio, declined by 6.8% with the West End down 5.8% and City Borders 9.2%. The balance of the portfolio, our Scottish holdings, was down 5.7%.

Our portfolio valuation movement outperformed both the MSCI Quarterly Index for Central London Offices and the wider UK All Property Index which were down by 10.9% and 12.8%, respectively.

Total property return



The quality of the portfolio, low vacancy rate, successful development programme and active asset management all contributed to this outperformance. The table shows performance trends in more detail, with the higher capital value (in £ psf) buildings outperforming.

Capital value and ERV performance

Capital value £ psf banding	Weighting by value	Capital value change	ERV growth
≥£1,500	21%	-3.5%	2.0%
£1,000 – £1,499	25%	-7.4%	2.9%
<£1,000	39%	-11.8%	0.3%
Underlying	85%	-8.5%	1.4%
Developments	15%	4.8%	0.6%
Portfolio	100%	-6.8%	1.3%

Our long-term development pipeline, which provides well designed office space in central London, is well positioned, with occupiers having a greater focus on high quality, environmentally attractive space. This was reflected in our EPRA rental values which moved up 1.3%, an improvement on the 0.2% decline seen in 2021.

The portfolio's true equivalent yield moved out 38bp from 4.50% to 4.88% over the year. The initial yield is 3.7% (December 2021: 3.3%) which, after allowing for the expiry of rent-frees and contractual uplifts, rises to 4.6% on a 'topped-up' basis (December 2021: 4.4%).

Derwent London's total property return for 2022 was -3.4%, which compares to the MSCI Quarterly Index of -8.0% for Central London Offices and -9.1% for UK All Property.

Our major development completions in 2022 were Soho Place W1 and The Featherstone Building EC1, and together these were 71% let or sold at year end. On-site developments are 25 Baker Street W1 and Network W1, both in the West End. The latter commenced in June 2022. Both are due to be delivered in 2025 and require £324m of capital expenditure to complete. Together the four schemes were valued at £790m at December 2022, representing 15% of the portfolio, and saw a 4.8% valuation uplift after capital expenditure, as development surpluses were released. Excluding these, the portfolio valuation decreased by 8.5% on an underlying basis.

Further details on the progress of our projects are in the 'Development and refurbishment' section on page 95 and additional guidance on the investment market is laid out in the 'Outlook' section on page 21.

PROPERTY REVIEW continued

VALUATION continued

Portfolio reversion

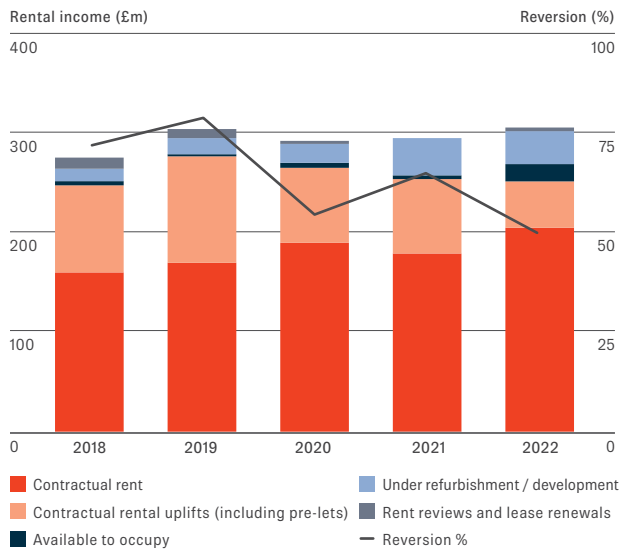
Our contracted annualised cash rent as at 31 December 2022 was £204.2m, a 14% increase over 12 months as the pre-lets at our 2022 development completions came through. With a portfolio ERV of £304.6m there is £100.4m of potential reversion. Within this, £46.4m is contracted through a combination of rent-free expiries and fixed uplifts, the majority of which is already straight-lined in the income statement under IFRS accounting standards. On-site developments and refurbishments could add £33.0m. The ERV of available space is £17.3m. Just over half of this was at our recently completed developments: £5.9m at The Featherstone Building and £3.2m at Soho Place (retail). Since year end we have let £2.4m of this space. The balance of the potential reversion of £3.7m comes from future reviews and expiries less future fixed uplifts.



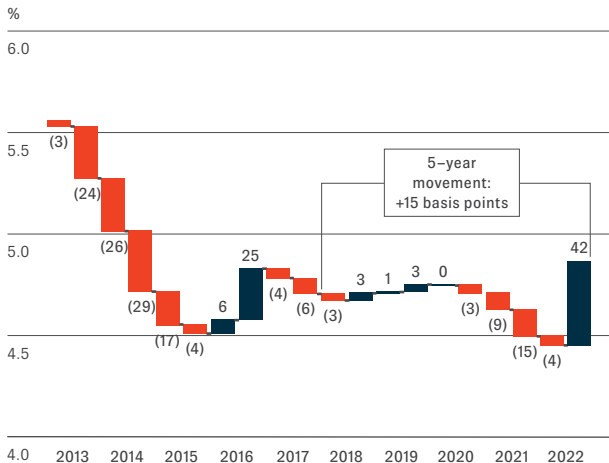
Valuation yields



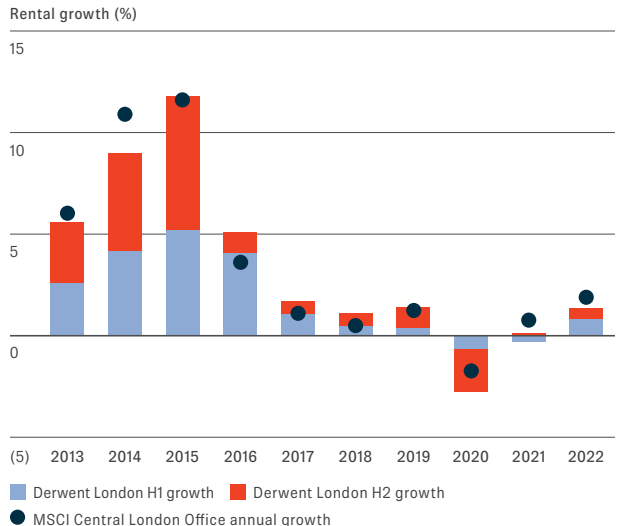
Portfolio income potential



True equivalent yield



Rental value growth



Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation ¹ performance %	Let floor area ² '000 sq ft	Vacant available floor area '000 sq ft	Vacant refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft	
West End									
Central	3,363.7	63	(4.9)	2,485	81	32	404	3,002	
Borders	376.6	7	(12.9)	411	18	0	0	429	
	3,740.3	70	(5.8)	2,896	99	32	404	3,431	
City									
Borders	1,544.5	29	(9.2)	1,446	248	9	0	1,703	
Central London	5,284.8	99	(6.8)	4,342	347	41	404	5,134	
Provincial	79.4	1	(5.7)	314	12	0	0	326	
Total portfolio	2022	5,364.2	100	(6.8)	4,656	359	41	404	5,460
	2021	5,696.7	100	3.5	4,733	146	236	459	5,574

1 Underlying – properties held throughout the year.

2 Includes pre-lets.

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		204.2
Contractual rental increases across the portfolio	46.4	
Letting 359,000 sq ft available floor area	17.3	
Completion and letting 41,000 sq ft of refurbishments	2.7	
Completion and letting 404,000 sq ft of developments	30.3	
Anticipated rent review and lease renewal reversions	8.2	
Future contracted growth above ERV	(4.5)	
Portfolio reversion		100.4
Potential portfolio rental value		304.6

Portfolio statistics – rental income

	Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Lease reversion per annum ¹ £m	Portfolio estimated rental value per annum £m	Average unexpired lease length ² Years	
West End							
Central	110.6	45.83	38.5	39.9	189.0	7.6	
Borders	21.2	51.82	0.4	0.5	22.1	6.4	
	131.8	46.69	38.9	40.4	211.1	7.4	
City							
Borders	68.0	47.88	11.2	9.6	88.8	4.8	
Central London	199.8	47.09	50.1	50.0	299.9	6.5	
Provincial	4.4	14.15	0.2	0.1	4.7	2.5	
Total portfolio	2022	204.2	44.86	50.3	50.1	304.6	6.4³
	2021	178.4	38.10	41.1	74.4	293.9	6.3

1 Contracted uplifts, rent reviews/lease renewal reversion and pre-lets.

2 Lease length weighted by rental income at year end and assuming tenants break at first opportunity.

3 7.2 years after adjusting for 'topped-up' rents.

PROPERTY REVIEW continued

ACQUISITIONS & DISPOSALS

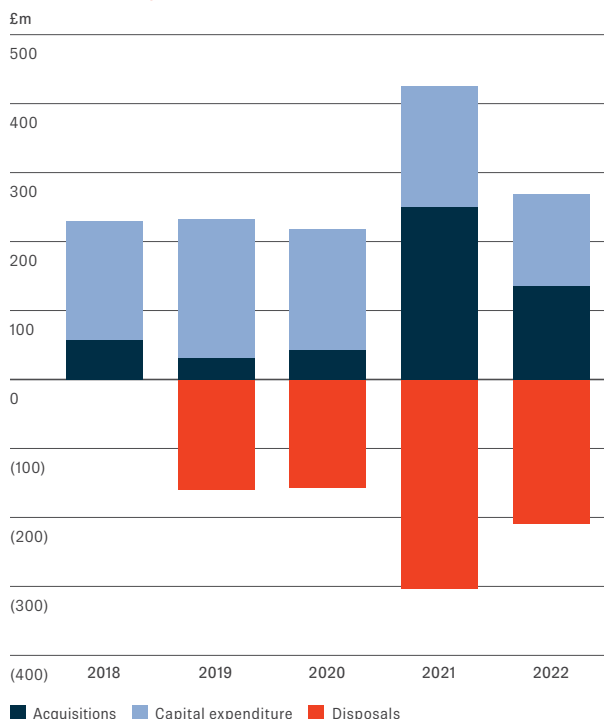
In 2021, the Group took the decision to retain its modern and recently upgraded buildings for longer while reducing its exposure to non-core properties with less repositioning potential. This decision reflected our view that the flight to quality would gather pace and that higher quality buildings would deliver stronger returns.

We remain committed to owning a portfolio balanced between core income properties and those that offer future regeneration potential. At 31 December 2022, the portfolio was split 57% 'core income' and 43% 'future opportunity' (excluding Old Street Quarter EC1, with an existing floor area of c.400,000 sq ft, where our acquisition is expected to complete from 2027 for £239m).

Since the start of 2022, we have made good further progress against our objectives, actively recycling capital out of several smaller non-core buildings above book value, where there was limited capacity for extra floor area and amenity.

Disposal proceeds have been recycled into our development pipeline thereby maintaining conservative gearing, providing firepower for future acquisition opportunities that may arise. Committed capex relating to our two on-site major projects totals £324m.

Net property investment



Acquisitions

Property	Date	Area sq ft	Total after costs £m	Net yield %	Net rental income £m pa	Net rental income £ psf
230 Blackfriars Road SE1	Q1 2022	60,400	58.3	3.5	2.1	41.00
Soho Place W1 headlease	Q1 2022	–	71.9	–	–	–
Other	–	–	2.8	–	–	–
Total 2022 acquisitions		60,400	133.0	–	2.1	–

Disposals (excluding trading property)

Property	Date	Area sq ft	Net proceeds £m	Net yield %	Net rental income £m pa	
New River Yard EC1	Q2 2022	70,700	65.9 ¹	4.5	3.3	
2 & 4 Soho Place W1	Q3 2022	18,400 ²	39.8	–	–	
Bush House WC2	Q3 2022	103,700	84.0	–	–	
Intermediate leasehold interest at Soho Place W1	Q3 2022	–	15.3	–	–	
Other	–	1,600	1.4	–	–	
Total 2022 disposals		194,400	206.4	–	3.3	
2023 YTD						
19 Charterhouse Street EC1	Q1 2023	63,200	53.6	4.6	2.6	

1 After deduction of rental top-ups and sale costs.

2 Office space.

LEASING, ASSET MANAGEMENT & PROPERTY MANAGEMENT

EMILY PRIDEAUX
Executive Director



LETTINGS

£9.8m

of new rent at 13.0% above ERV

Leasing activity in 2022 totalled £9.8m, across 46 transactions, of which £2.3m were pre-lets. These 163,000 sq ft of lettings were signed on average 13.0% above December 2021 ERV. Nine transactions comprised 68% of the total.

Demand for furnished space is also strong with occupiers prepared to pay a premium to secure high quality, ready to occupy units. This provides an excellent solution for our smaller units and we currently operate 63,600 sq ft of 'Furnished + Flexible' space with a further 34,100 sq ft on site or committed.

Leasing activity

	Let			Performance against Dec 21 ERV Overall %
	Area sq ft	Income £m pa	WAULT ¹ yrs	
H1 2022	109,300	7.1	6.1	9.3
H2 2022	53,700	2.7	4.2	23.7
2022	163,000	9.8	5.7	13.0
2023 YTD	162,600	14.7	13.4	7.7 ²

¹ Weighted average unexpired lease term (to break).

² Performance against Dec 22 ERV.

POST-YEAR END LETTING ACTIVITY

£14.7m

of new rent in 2023 YTD

Since the start of 2023, we have seen a noticeable increase in letting activity. Ten new leases have been agreed totalling £14.7m of rent on average 7.7% above December 2022 ERV. Key transactions include:

- PIMCO has pre-let 106,100 sq ft at 25 Baker Street W1 at a rent of £11.0m, well above December 2022 ERV (commercial element now 56% pre-let/sold); and
- Buro Happold has leased 31,100 sq ft at The Featherstone Building EC1 at a rent of £2.3m, in line with December 2022 ERV.

Principal lettings in 2022

Property	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Lease term Years	Lease break Year	Rent-free equivalent Months
H1 2022							
90 Whitfield Street W1	Michael Kors	18,850	72.50	1.4	10	-	24
The Featherstone Building EC1	Marshmallow	16,220	71.50	1.2	10	6	15, plus 9 if no break
The Featherstone Building EC1	Dept Agency	11,450	85.25	1.0	10	5	11.5, plus 11.5 if no break
White Collar Factory EC1	Brainlabs	11,540	71.70	0.8	6	-	10.4
White Collar Factory EC1	Adobe	10,180	70.00	0.7	10	6	12, plus 10 if no break
230 Blackfriars Road SE1	Wandle Housing Association	7,290	49.50	0.4	7.5	4	7, plus 6 if no break
80 Charlotte Street W1	NewRiver REIT	4,090	70.00	0.3	5	-	11
Holden House W1	Talon Outdoor	5,120	49.50	0.3	5	3.5	6
H2 2022							
43 Whitfield Street W1	Pollination	5,930	85.00	0.5	10	5	5
43 Whitfield Street W1	Sine Digital	5,090	86.00	0.4	10	5	6, plus 5 if no break
Gordon House SW1	VCCP	7,380	52.50	0.4	3	-	7
Sub-total		103,140	71.75	7.4			
Other		59,860	40.10	2.4			
Total 2022 lettings		163,000	60.40	9.8			

PROPERTY REVIEW continued

LEASING, ASSET MANAGEMENT & PROPERTY MANAGEMENT continued

Principal lettings in 2023 YTD

Property	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Lease term Years	Lease break Year	Rent-free equivalent Months
25 Baker Street W1	PIMCO	106,100	103.40	11.0	15	–	37
The Featherstone Building EC1	Buro Happold	31,100	74.40	2.3	15	10 ¹	24, plus 12 if no break
Tea Building E1	Jones Knowles Ritchie	8,100	60.00	0.5	10	5	12, plus 12 if no break
Other		17,300	51.10	0.9	–	–	
2023 YTD		162,600	90.10	14.7	–	–	

¹ There is an additional break at year 5 on level eight subject to a 12-month rent penalty payable by the tenant.

ASSET MANAGEMENT

£29.6m

of transactions on average 5.3% above ERV

By March 2022, most Covid-19 restrictions in the UK had been lifted. As office occupancy levels have increased, businesses have re-engaged with their long-term real estate strategy and, as a result, we are seeing growing demand for long-term solutions from the short-term extensions and regears experienced through the pandemic.

We continually review our asset strategies as occupier requirements evolve and align expiry profiles to facilitate the refresh, upgrade and repositioning of our portfolio.

At the start of 2022, 9% of passing rent was subject to break or expiry in the year. After adjusting for disposals and space taken back for schemes, 79% of income exposed to breaks and expiries were retained or re-let by year end. This compares to our 10-year average retention/re-let rate of 85%.

10% of passing rent is subject to break or expiry in 2023, a reduction from the 15% potentially at risk six months earlier.

Rent reviews were settled 6.2% above December 2021 ERV and delivered a 10.1% uplift over the previous income. The majority of this activity was at White Collar Factory EC1 where rents increased between 14% and 16%.

Renewals were completed 12.5% above the previous rent and 9.3% above December 2021 ERV. The main lease renewal was the extension of Morningstar's lease at 1 Oliver's Yard EC1 to June 2027. They have agreed a rental uplift reflecting an 18.8% premium to the previous rent.

Regears, excluding the impact of a landlord development facilitation break clause, completed 0.2% above previous rent and 1.6% above December 2021 ERV. The main regear was a restructuring of Burberry's break clause at 1 Page Street SW1.

Asset management activity 2022

	Number	Area '000 sq ft	Previous rent £m pa	New rent £m pa	Uplift %	New rent vs Dec 21 ERV %
Rent reviews	20	215.7	12.6	13.8	10.1	6.2
Lease renewals	29	112.2	5.5	6.3	12.5	9.3
Lease regears ¹	13	189.0	9.5	9.5	0.2	1.6
Total	62	516.9	27.6	29.6	7.2	5.3

¹ Excludes single development-linked regear in Q1.



Members of the Leasing and Marketing team



Members of the Asset and Property Management teams

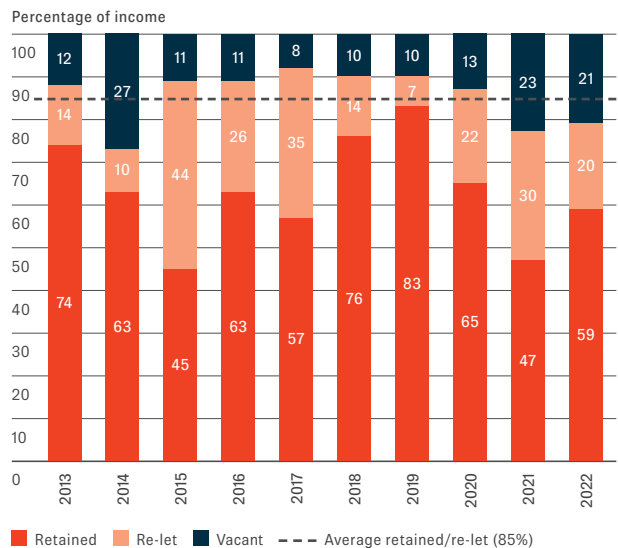
VACANCY

6.4%

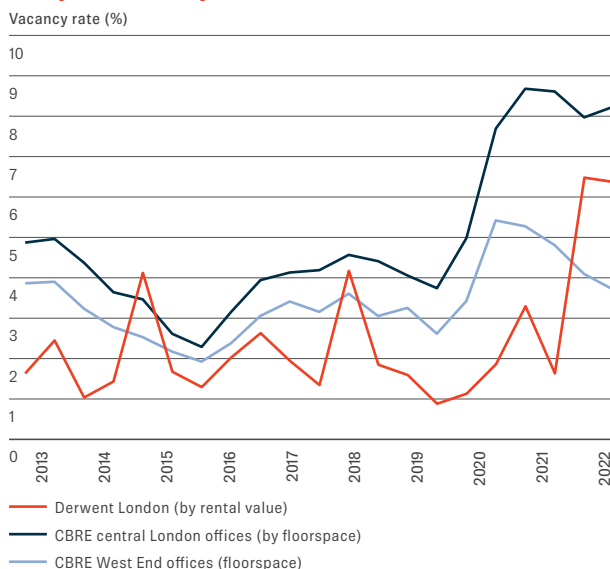
at year end, 5.0% proforma for post-year end lettings

The portfolio EPRA vacancy rate increased to 6.4% at 31 December 2022 from 1.6% at the start of the year. The increase primarily reflects development completions at The Featherstone Building EC1 and Soho Place W1 as well as refurbishment completions at Tea Building E1. Together these three projects contributed 58% to the year end vacancy. Letting activity since the start of 2023 would reduce the EPRA vacancy to 5.0% on a proforma basis.

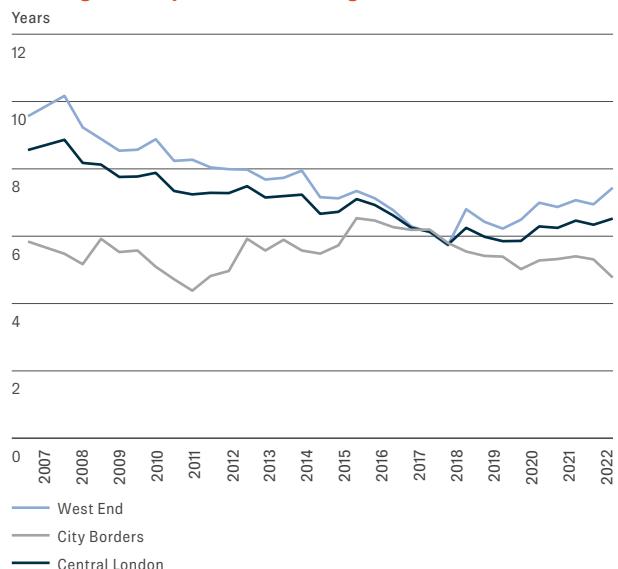
Retaining occupiers – lease expiry and break analysis



Ten-year vacancy trend



Average unexpired lease length



PROPERTY REVIEW continued

LEASING, ASSET MANAGEMENT & PROPERTY MANAGEMENT continued

Occupier survey

In January 2023, we carried out an occupier survey. 41 tenants contributed with a combined ERV of £103m, equivalent to 50% of ERV (excluding projects and contracted uplifts). When asked whether any change in the organisation's real estate footprint was anticipated over the next five years, 40% of respondents (by ERV) said they expect either a small or significant increase and 34% expect no change. Our occupier surveys (August 2020, January 2021 and July 2021) show a clear upward trend since the pandemic in the number of occupiers expecting their real estate footprint to increase or remain the same.

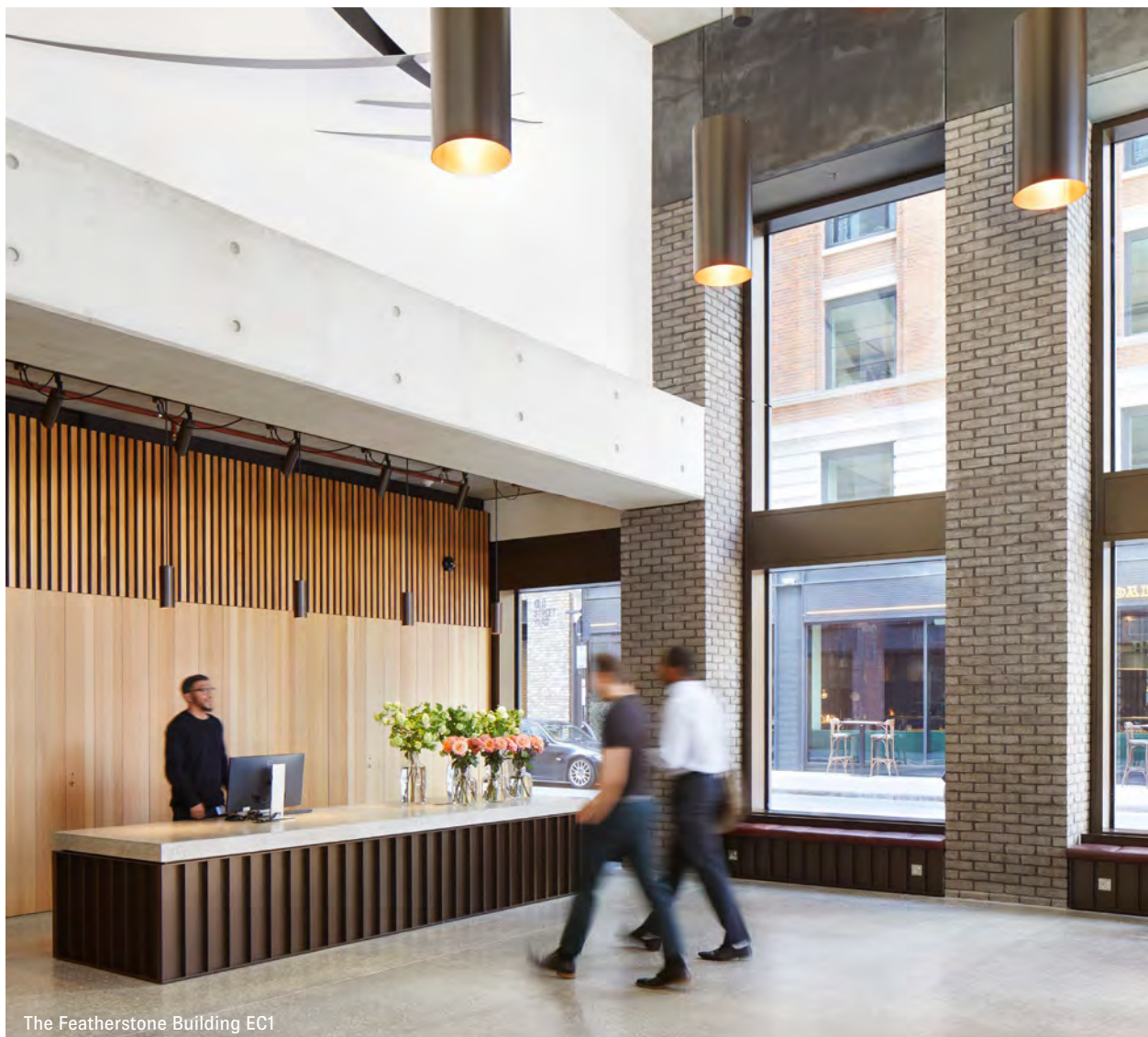
Rent collection – At pre-pandemic levels

As outlined with our H1 2022 results, rent collection continues to match pre-pandemic levels with 98% of the December 2022 quarter rent collected. Similarly, service charge collection remains strong at 96%.

PROPERTY MANAGEMENT

As occupation continued to rise through 2022, the Property Management team further engaged with our customers hosting a series of events including workshops and competitions, alongside initiatives to support local communities.

Work has continued to support the Group's journey to net zero carbon with the development of a portfolio-wide metering strategy to ensure more robust data capture, supporting our energy reduction programme and facilitating roll out of our Intelligent Building infrastructure. The team also implemented a number of practical measures, including a reduction in temperature set points, smart lighting initiatives and adjustments to plant running times, helping exceed our energy reduction targets.



The Featherstone Building EC1

DEVELOPMENT & REFURBISHMENT

NIGEL GEORGE
Executive Director

PAUL WILLIAMS
Chief Executive



2022 PROJECT COMPLETIONS

450,500 sq ft

at an average 27% profit on cost at completion

In 2022 we completed three major projects:

- Soho Place W1 (285,000 sq ft development)**
 At 1 Soho Place, the offices were fully pre-let to G-Research and Apollo Group at an average rent of £93 psf and 15-year WAULT. The retail is available to let but interest has strengthened following the opening of the Elizabeth line. At 2 & 4 Soho Place, the theatre and offices were pre-let to Nimax Theatres and Esselco respectively and were sold in 2022. The profit on cost at practical completion was 25% and the embodied carbon intensity of 1 Soho Place was 550 kgCO₂e/sqm.
- The Featherstone Building EC1 (127,300 sq ft development)**
 After lettings to Dept Agency and Marshmallow, and following the lettings to Buro Happold and the 2,350 sq ft retail unit in early 2023, the building is 59% let by floorspace. We are encouraged by the level of interest in the remaining 53,000 sq ft of available space. The profit on cost at practical completion was 30% and the embodied carbon intensity was 539 kgCO₂e/sqm.
- Francis House SW1 (38,200 sq ft refurbishment)**
 Pre-let to Edelman at an average rent of £76 psf on a 15-year lease with a break at year 10. The profit on cost at completion was 31%.

MAJOR ON-SITE PROJECTS

435,000 sq ft

with an estimated 11% profit on cost

At the end of 2022, we were on site at two major projects totalling 435,000 sq ft which we currently expect will deliver an 11% development profit and 5.4% yield on cost (excluding the pre-let to PIMCO at 25 Baker Street).

- 25 Baker Street W1 (298,000 sq ft)**
 This mixed-use project comprises 218,000 sq ft of offices, plus residential and retail. As part of the leasehold regear to a new 129-year headlease, we have agreed to sell the courtyard retail and the smaller office block on Gloucester Place to the freeholder, The Portman Estate. The impressive landscaped retail courtyard forms an important part of this design-led destination in the heart of Marylebone. Demolition has completed and sub and super-structure works are progressing well. 97% of construction costs of the office element have been fixed (80% of total). Following the post-year end pre-let to PIMCO, the commercial element of the scheme is 56% pre-let/sold. The mid stage 5 embodied carbon estimate is c.600 kgCO₂e/sqm.
- Network W1 (137,000 sq ft)**
 Demolition works at this office-led scheme, adjacent to 80 Charlotte Street W1 and DL/78.Fitzrovia, have completed and negotiations are at an advanced stage with our preferred main build contractor. Supply in Fitzrovia is highly constrained and we are encouraged by the level of early occupier interest. The stage 4 design embodied carbon estimate is c.530 kgCO₂e/sqm.



25 Baker Street W1 site

PROPERTY REVIEW continued

DEVELOPMENT & REFURBISHMENT continued

FUTURE DEVELOPMENT PIPELINE

4 schemes

totalling c.1.3m sq ft

There are four key schemes that comprise our medium and longer term development pipeline. Our medium-term pipeline could deliver c.390,000 sq ft (at 100%) of high quality office-led space. At 50 Baker Street W1 (c.240,000 sq ft at 100%), which we own in a 50:50 joint venture with Lazari Investments, we have submitted a planning application for a project approximately double the existing floor area. This leasehold property is on The Portman Estate and includes another building in their ownership. A regear of the various interests would be required to implement any scheme. At Holden House W1 (c.150,000 sq ft), we are working on a revised planning application with new architects which will have a higher office weighting and stronger sustainability credentials than the existing planning consent.

Over the longer term, we continue to progress plans for Old Street Quarter EC1. Our current appraisals suggest the 2.5-acre island site has potential for a 750,000+ sq ft mixed commercial use campus targeted at different occupier sectors, including Life Sciences among others. We have had constructive engagement with the London Borough of Islington.

Our acquisition of the site is expected to complete from 2027, conditional on delivery of the new eye hospital at St Pancras and subsequent vacant possession of the site. At 230 Blackfriars Road SE1, our current plans assume a 2030 block date. Our early appraisals show the site has capacity for a 200,000+ sq ft office-led development, more than three times the existing floor area.

Refurbishments – an increasing capex component

Refurbishment projects will comprise an increasing proportion of annual capital expenditure over the next few years as we continue to upgrade the portfolio to meet ever higher occupier requirements. These projects provide the opportunity to enhance the ERV through improving the amenity offer and overall quality. Smaller units will be appraised for our 'Furnished + Flexible' product. Larger refurbishments likely to commence over the near to medium term include 1-2 Stephen Street W1, 20 Farringdon Road EC1, 1 Oliver's Yard EC1 and Greencoat & Gordon House SW1. The floor area of these four buildings is 756,800 sq ft.

Major on-site development pipeline

Project	Total	25 Baker Street W1	Network W1
Completion		H1 2025	H2 2025
Office (sq ft)	350,000	218,000	132,000
Residential (sq ft)	52,000	52,000	–
Retail (sq ft)	33,000	28,000	5,000
Total area (sq ft)	435,000	298,000	137,000
Est. future capex ¹ (£m)	324	217	107
Total cost ² (£m)	708	463	245
ERV (c.£ psf)	–	90	87.5
ERV (£m pa)	30.3	18.4 ³	11.9
Pre-let/sold area (sq ft)	31,000	31,000 ⁴	–
Embodied carbon intensity (kgCO ₂ e/sqm) ⁵		c.600	c.530
Target BREEAM rating		Outstanding	Outstanding
Target NABERS rating		4 Star or above	4 Star or above
Green Finance		Elected	Elect in 2023 (target)

1 As at 31 December 2022.

2 Comprising book value at commencement, capex, fees and notional interest on land, voids and other costs. 25 Baker Street W1 includes a profit share to freeholder The Portman Estate.

3 Long leasehold, net of 2.5% ground rent.

4 19,000 sq ft courtyard retail and 12,000 sq ft Gloucester Place offices.

5 Embodied carbon intensity estimate as at stage 4 or 5.



Members of the Development and Sustainability teams

Project summary – current projects

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	2023 capex £m	2024 capex £m	2025+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On-site major projects									
25 Baker Street W1	–	143	298	104	82	31	217 ¹	H1 2025	£90.00
Network W1	–	70	137	35	52	20	107	H2 2025	£87.50
Other – 2022 completions	–	–	–	6	–	–	6		
	–	213	435	145	134	51	330		
Planning and design	–	–	–	10	3	–	13 ²		
Other	–	–	–	45	31	24	100 ³		
Total	–	213	435	200	168	75	443		
Capitalised interest	–	–	–	7	13	4	24		
Total including interest	–	213	435	207	181	79	467		

1 Includes profit share payments and expenditure on trading property/stock.

2 Includes 50% share of 50 Baker Street W1 JV scheme and Old Street Quarter EC1.

3 Includes EPC upgrades and £15m capex for Strathkelvin Retail Park (under appraisal). Excludes major refurbishments not yet committed.

Project summary – future projects

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year
Consented				
Holden House W1	4.2	91	150	2025
	4.2	91	150	
Under appraisal¹				
Strathkelvin Retail Park ²	0.9	108	126	2023
50 Baker Street W1 JV ²	2.6	61	120	2024
Greencoat & Gordon House SW1	5.6	138	138	2025
Blue Star House SW9	0.7	53	110	2025
	9.8	360	494	
Consented and under appraisal				
	14.0	451	644	
Future Appraisal ³	51.6	1,460	1,460	
Current Major Projects	–	213	435	
Pipeline	65.6	2,124	2,539	

1 Areas proposed are estimated from initial studies.

2 Planning application submitted.

3 Includes refurbishment opportunities at 1 Oliver's Yard EC1, 20 Farringdon Road EC1 and 1-2 Stephen Street W1.

FINANCE REVIEW

Derwent London's capital allocation and funding strategies through the last few years ensured that the Group ended 2022 with low leverage combined with a long weighted average unexpired lease and debt profile.



DAMIAN WISNIEWSKI
Chief Financial Officer

PRESENTATION OF FINANCIAL RESULTS

The financial statements have been prepared in accordance with UK adopted International Accounting Standards (IAS). In common with usual and best practice in our sector, alternative performance measures have also been provided to supplement IAS based on the recommendations of the European Public Real Estate Association ("EPRA"). EPRA Best Practice Recommendations (BPR) have been adopted widely throughout this report and are used within the business when considering our operational performance as well as matters such as dividend policy and elements of our Directors' remuneration. Full reconciliations between IFRS and EPRA figures are provided in note 40 and all the EPRA definitions are included on pages 311 and 312. The main financial EPRA measures have also been audited this year.

Financial highlights

	Dec 2022	Dec 2021 Restated
Total net assets	£4,075.5m	£4,441.8m
EPRA NTA per share	3,632p	3,959p
EPRA NDV per share	3,768p	3,884p
Property portfolio at fair value	£5,321.8m	£5,646.3m
Gross property and other income	£248.8m	£241.3m
Net rental income	£188.5m	£177.9m
IFRS (loss)/profit before tax	(£279.5m)	£252.5m
EPRA earnings per share (EPS)	106.62p	108.53p
Interim and final dividend per share	78.50p	76.50p
EPRA LTV ratio	23.9%	22.3%
NAV gearing	30.8%	28.2%
Net interest cover ratio	423%	463%

We have continued to balance value creation with resilient earnings and dividend growth while delivering a high quality product which appeals to today's occupier with its combination of location, design, amenity, flexibility in use and customer focus.

The importance of a strong balance sheet and good long-term planning became very evident through 2022 as the UK, like most other major economies, experienced increasing costs and a widespread upward yield shift. Covid-19's impact, so strongly felt in 2020 and to a lesser extent in 2021, reduced further in 2022 but we then saw the major conflict in Ukraine, increases to energy and food prices and the emergence of other global tensions. These acted as a catalyst for the inflation outlook to change significantly and caused capital markets to re-look at interest rates and the pricing of credit risk, particularly during the period of higher UK volatility in late 2022. This has also not been an easy time for businesses and key public service providers in the UK who face staff shortages and cost pressures while dealing with regulatory changes and the long-term climate change and biodiversity emergencies.

Derwent London's product differentiates us in a central London office market where a flight towards quality combines with relatively low relevant supply. This bifurcation looks set to continue and we have the balance sheet capacity and business model to deliver our major developments while searching for new value-add opportunities. We also expect to further upgrade amenities and energy efficiency credentials within some of our more mature properties over the next few years to help satisfy this occupier demand.

Financial overview

As noted in the Property Review, the Group's property valuation at 31 December 2022 was impacted by the significant upward yield shift seen in H2 giving rise to an 8.2% decline in the Group's total net assets over the year. This took our total return over the year to -6.3% compared to the +5.8% seen in 2021 with EPRA net tangible assets (NTA) down 8.3% over 2022 to 3,632p per share.

EPRA Net Disposal Value (NDV), which takes account of the £166m positive fair value movement on fixed rate debt, was £4.24bn, equivalent to 3,768p per share. This is only 3.0% lower than the 3,884p per share recorded as at 31 December 2021.

EPRA NTA movement

	2022 p	2021 Restated p
Opening EPRA NTA	3,959	3,812
Revaluation movement	(373)	119
Profit on disposals	23	9
EPRA earnings	107	109
Ordinary dividends paid	(78)	(75)
Interest rate swap termination costs	-	(3)
Share of joint venture revaluation movement	(8)	(12)
Other	2	-
Closing EPRA NTA	3,632	3,959

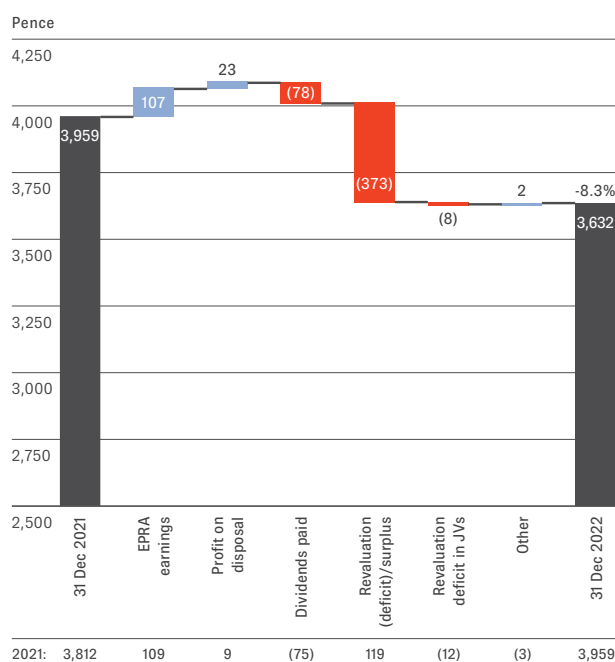
We have continued to invest in the portfolio with acquisitions and project spend totalling £258m but property disposal proceeds in 2022 of £210m meant that our debt levels were almost unchanged compared to December 2021. Our gearing remains low, all of our year-end debt was at fixed rates and our weighted average debt maturity was 6.2 years.

Overall estimated rental values rose by 1.3% in 2022 with the highest quality buildings outperforming. Vacancy levels were also higher in 2022 than in recent years, partly the result of development completions. However, with the exception of the property revaluation movement, our income statement remained robust with EPRA earnings only marginally down on 2021 at £119.7m or 106.6p per share. If the impact of non-recurring surrender and rights-of-light premiums is ignored, EPRA earnings per share were 1.9% higher than 2021 on an underlying basis.

Following new guidance issued by the IFRS Interpretations Committee in October 2022, we have restated the results for 2020 and 2021 to reflect the writing off of Covid-19 concessions such as rent forgiveness that related to historic receivable balances; our previous accounting policy was to spread the concession over the remaining life of the relevant lease. Where related to a future lease obligation, the concession continues to be amortised over the remaining life of the lease. None of the adjustments are material but the re-presented figures follow the new guidance and ensure proper comparability between years.

We have also grossed up cash balances within the balance sheet to include cash held in tenant deposit accounts. These cash balances are restricted and not generally available to the Group but, as they are held within accounts which we control, have been grossed up and the amounts re-presented. 'Cash held in restricted accounts' also now includes cash within service charge bank accounts which was previously disclosed within 'trade and other receivables'. This change of treatment follows guidance from IFRIC issued in March 2022.

EPRA net tangible assets per share



FINANCE REVIEW continued

Property portfolio and balance sheet

Our wholly-owned property portfolio was externally valued at £5.3bn as at 31 December 2022, allocated across the balance sheet as follows:

Property portfolio

	Dec 22 £m	Dec 21 Restated £m
Investment property	5,002.0	5,361.2
Non-current assets held for sale	54.2	102.8
Owner-occupied property	50.0	49.3
Trading property	39.4	32.2
Property carrying value	5,145.6	5,545.5
Accrued income (non-current)	165.2	147.0
Accrued income (current)	26.1	22.8
Unamortised direct letting costs	13.8	12.3
Grossing up of headlease liabilities	(34.2)	(70.4)
Profit share due to TfL	-	(14.8)
Revaluation of trading property/other	5.3	3.9
Fair value of property portfolio	5,321.8	5,646.3
Fair value of properties held in joint venture (50%)	42.4	50.0

We continued to recycle capital within our property holdings in 2022 with acquisitions totalling £133.0m, capital expenditure of £114.8m, capitalised interest of £7.0m and disposals with carrying values totalling £182.1m. Interest capitalised in 2022 was considerably lower than the £12.0m recognised in 2021 as the prior year included two major projects close to completion with correspondingly high cumulative development expenditure while the current year includes two relatively new schemes at 25 Baker Street W1 and Network W1.

Disposals included Bush House WC2, sold for £85m (gross) in Q3 2022. At the beginning of 2022, we had expected to carry out a comprehensive refurbishment of this property. Selling it instead, for a price that captured most of our expected development profit, substantially reduced our capital expenditure requirement and helped keep the Group's gearing at lower levels than those projected at the beginning of 2022.

Property, plant and equipment of £54.3m (2021: £54.0m) includes the £50.0m owner-occupied property at 25 Savile Row W1 and £4.3m of leasehold improvements, furniture, equipment and artwork.

Investments of £43.9m (2021: £51.1m) are made up almost entirely of the carrying value of our 50% holding at 50 Baker Street W1, stated after a revaluation deficit of £9.3m in the year and retained profits for 2022 of £2.0m.

The properties classified within 'non-current assets held for sale' totalling £54.2m at 31 December 2022 were 19 Charterhouse Street EC1, the sale of which completed in January 2023, and a small property at 13 Charlotte Mews W1.

The £39.4m (2021: £32.2m) trading property at year end comprised residential units under construction at 25 Baker Street for delivery in 2025 and Welby House SW1, originally acquired as a potential site for affordable housing and subject to a write-down in value of £0.2m in 2022. Additional costs have also been incurred within 'trading stock'; this is distinct from trading property as we do not own an interest in the property itself but have an agreement in place to deliver certain retail elements of the 25 Baker Street scheme upon completion to the freeholder, The Portman Estate, at an agreed price. Completion of this element of the scheme is expected in 2025.

Other receivables treated as non-current increased to £188.1m from £159.3m in 2021. This includes £9.1m (2021: £nil) of design and planning application costs relating to the Old Street Quarter EC1 scheme which are recoverable up to a capped amount of £13.0m in the unlikely event that the vendor is unable to deliver vacant possession of the site. Other receivables also include accrued income from the 'straight-lining' of rental income under IFRS 16 to spread the effect of incentives and fixed uplifts over the lease terms. The non-current element has increased to £165.2m from a restated £147.0m in 2021. In addition, £26.1m (restated 2021: £22.8m) is included under current asset receivables as this accrued income is due to unwind within a year. Unamortised letting and legal fees, which are also included in receivables, increased to £13.8m (2021: £12.1m) and are amortised over their respective remaining lease terms.

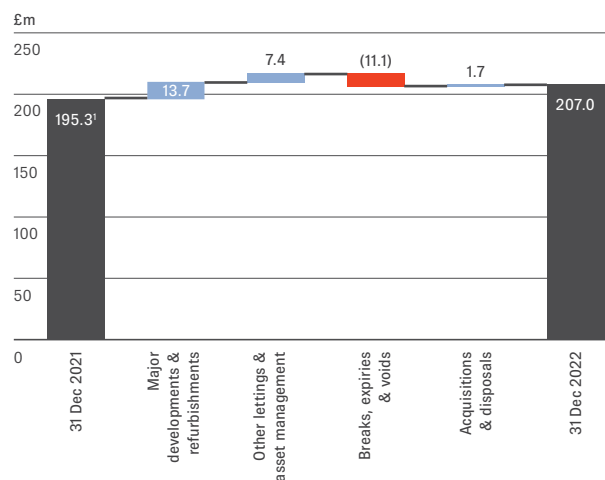
Property income and earnings

Gross property and other income increased to £248.8m in 2022 from a restated £241.3m in the year to 31 December 2021. Gross rental income was up 6.0% to £207.0m from £195.3m, largely due to new lettings at the two large developments completed in the first half of 2022. Soho Place W1 added £10.8m of income in 2022 and The Featherstone Building EC1 £1.0m. Other lettings across the portfolio provided a further £9.3m. We were very active with acquisitions and disposals through 2021 and 2022 and the major acquisition at 250 Euston Road W1 in Q4 2021 increased gross rents by £3.9m compared to the prior year, 230 Blackfriars SE1 added £1.8m and Holford Works WC1 a further £0.5m. The disposals were at a lower overall value but a higher yield; rental income reduced by £2.3m year-on-year due to the sale of Angel Square EC1, £1.5m at New River Yard EC1 and other disposals an additional £0.7m.

Lease surrender and rights-of-light premiums were unusually high in 2021 at £5.6m but fell back in 2022 to a more typical total of £1.4m. Property trading activity has decreased now that all the Asta House W1 residential units have been sold, the last one completing early in 2022 for £1.6m. In 2021, the corresponding sales turnover was £6.7m and, in 2020, was as high as £32.3m. The next apartments for sale at our 25 Baker Street scheme are due to complete in 2025 so trading property disposal proceeds are likely to be very low for the next two years.

Service charges and energy costs have become a much more significant issue for many of our tenants in 2022 with energy costs, in particular, rising to unprecedented levels. Our ability to manage energy tariffs has been impacted too by our commitment to green energy. For example, we were not able to move to 'out of contract' energy tariffs when rates spiked in Q4 2022 as those do not support renewable electricity.

Movement in gross rental income



1 2021 figures have been restated – see note 2 on pages 247 to 250.

Typical cost per kWh for renewable electricity on six-monthly contracts increased from around 31p at the beginning of 2022 to about 108p at the end of the year but is now falling back to below 40p. Gas has seen a similar story, rates moving from about 7p to 25p and now back to around 12p per kWh. We very much hope to be able to pass on these lower costs to our tenants as soon as possible and have offered some help with the smoothing out of this price volatility where we can. One positive outcome is that there is now even more focus on reducing energy use with landlord and tenant seeking ways to co-operate further.

With our higher average vacancy rate through much of 2022, property costs borne by us have increased too, irrecoverable property expenditure increasing from £11.8m in 2021 to £14.4m in 2022. In addition, irrecoverable service charges, due to units being vacant or where the tenant has negotiated a capped service charge, increased by 50% to £5.1m in 2022 from £3.4m.



Members of the Finance team

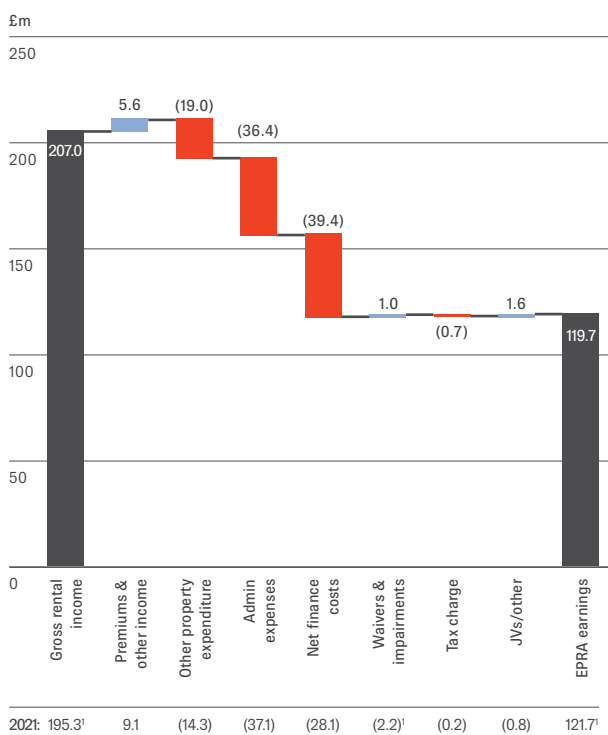
FINANCE REVIEW *continued*

As noted above, we have revised the accounting treatment for rent concessions granted in relation to historic amounts due and these have now been written off in the appropriate period (mainly in 2020 and 2021) where they were previously being spread over their remaining lease terms. The adjustments have been shown as a prior year adjustment and, while none of the amounts is material, these have been adjusted so that there is meaningful comparison year-on-year.

We carry out full impairment testing of receivable balances using the expected credit-loss model in accordance with IFRS 9. This applies to trade receivables as well as the balances created by the spreading of lease incentives, now slightly reduced as a result of the change in accounting policy. These have been carried out for each of our 64 largest tenants and for others where we believe the risk is elevated, with the remaining balances considered according to their sector. With improved conditions affecting many of our tenants, particularly the smaller ones, and partly because the more significant receivable risks have now been written off or provided for, we saw a net reversal in 2022 with a credit to the income statement of £1.0m compared to restated charges of £2.2m in 2021 and £16.1m in 2020.

As a result of these factors, net rental income increased from a restated £177.9m in 2021 to £188.5m in 2022. Including surrender premiums, dilapidation receipts, other property income and management fees, net property and other income increased 4.0% to £194.6m from £187.2m in 2021.

EPRA earnings



¹ 2021 figures have been restated – see note 2 on pages 247 to 250.

Salaries have risen both for our own staff and for those of our many professional advisers and consultants. However, increased headcount and salaries were offset by lower staff bonus levels and reduced Directors' remuneration. As a result, administrative expenses were 1.9% lower than the previous year at £36.4m compared with £37.1m. As in previous years, we do not capitalise any of our overheads.

Lower impairment and administrative expenses have seen our EPRA cost ratio move back down again in 2022. Including direct vacancy costs, it fell to 23.3% from 24.9% in 2021.

As noted above, property valuations fell in the second half of 2022 with the main Group revaluation deficit being £422.1m after accounting adjustments (2021: surplus of £131.1m). Our share of the property revaluation deficit at 50 Baker Street was a further £9.3m (2021: deficit of £10.2m) but our head office at Savile Row showed a valuation rise of £0.7m, shown within the Group Statement of Comprehensive Income rather than the Income Statement.

The profit on disposal of investment properties increased to £25.6m in 2022 from £10.5m in 2021. Most of this came from the sale of Bush House for proceeds of £85m in Q3 2022. Further proceeds of £55.8m was due to the disposal of the Group's leasehold interest in 2 & 4 Soho Place W1 and £67.2m from New River Yard EC1 in June 2022, both of these two properties having been disclosed as 'assets held for sale' in the December 2021 balance sheet.

Net finance costs increased to £39.4m from £28.1m in 2021. This was due to higher average borrowings through 2022 but was also affected by capitalised interest falling from £12.0m in 2021 to £7.0m in 2022.

Interest rate increases gave rise to a further £5.8m fair value gain relating to our remaining interest rate swap.

Our joint venture with Lazari Investments relating to 50 Baker Street W1 properties has produced a loss for the year of £7.3m, impacted by the £9.3m revaluation deficit noted above.

The resulting IFRS loss for the year before tax was £279.5m compared to a profit of £252.5m in the prior year. IFRS earnings per share were -249.84p (2021: 224.99p).

A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 40 on page 293.

EPRA like-for-like rental income

EPRA like-for-like (LFL) gross rental income was up 1.1% over the year, partly because the higher vacancy rate in 2022 came mainly from recently completed developments which fall outside our EPRA LFL portfolio. EPRA LFL net rental income was up by 1.1% over the year and EPRA LFL net property income, which takes account of the unusually high surrender premiums received in 2021, was down by 1.0%.

EPRA like-for-like rental income

	2022 %	2021 Restated %
Increase/(decrease) based on gross rental income	1.1	(3.6)
Increase based on net rental income	1.1	3.4
(Decrease)/increase based on net property income	(1.0)	6.6

Internal controls, assurance and the regulatory environment

We continue to focus on ensuring our internal controls are robust and that we have a comprehensive approach to assurance across our business, noting the particular interest in this area from external stakeholders and regulators.

While the exact timing and scope of the forthcoming BEIS reforms are yet to be finalised, we have commenced a project to map our full assurance environment and to undertake a risk-based project to enhance the documentation and evidencing of internal controls.

Independent internal audits continue to have a beneficial impact on our control environment and we have also summarised our approach to obtaining other forms of external assurance across the business. Our principal sources of independent external assurance remain consistent with last year and include the annual statutory audit, internal audits carried out upon key risk areas throughout the year, service charge audits and a twice-yearly external valuation. In line with last year, we have engaged with an independent external assurance provider in relation to selected sustainability, health and safety and green finance disclosures.

We are committed to ensuring high quality reporting that stands up to scrutiny, both from within the business via robust internal control mechanisms and from independent review. Activity in this area will be scaled up in 2023 to further strengthen the internal control environment and ensure compliance with the new requirements as measures and mechanisms for implementation are finalised.

Taxation

The corporation tax charge for the year ended 31 December 2022 was £0.9m. Almost all of our portfolio is within the REIT regime but this charge relates to non-REIT activity, mainly income arising from certain property development and trading operations.

The movement in deferred tax for the year was a charge of £0.9m, (2021: £0.8m credit) of which £0.1m was expensed through the income statement. In addition, £0.6m was charged through equity in relation to future tax deductions for equity-settled share-based payments. A further £0.2m was charged through 'other comprehensive income' in relation to the owner-occupied property at Savile Row.

As well as other taxation paid during the year, in accordance with our status as a REIT, £9.0m of tax was paid to HMRC relating to tax withheld from shareholders on property income distributions (PIDs).

Derwent London's principles of good governance extend to a responsible approach to tax. Our statement of tax principles is available on our website www.derwentlondon.com/investors/governance/tax-principles and is approved by the Board in line with the Group's long-term values, culture and strategy. We have also provided more information on our tax governance and risk management on pages 67 and 115, respectively.

FINANCE REVIEW continued

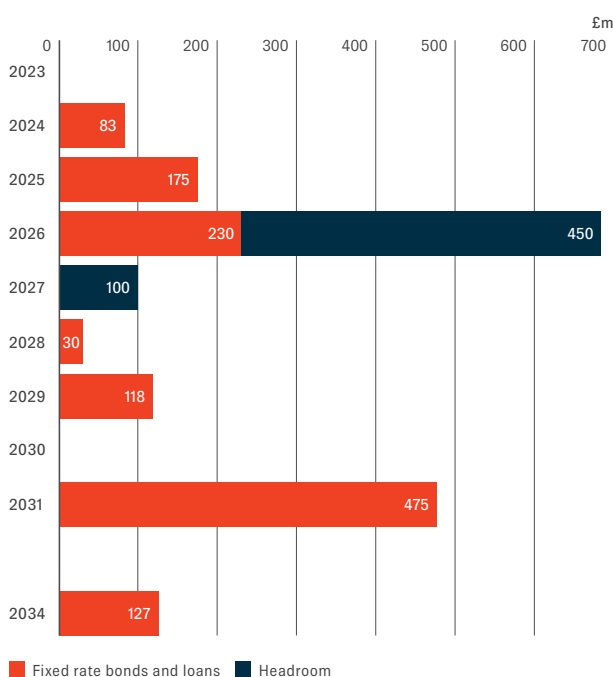
Borrowings, net debt and cash flow

Rental income received from tenants increased to £194m in 2022 from £187m in 2021. However, cash paid out on property costs, administration and interest payments increased by £18.4m over the 2021 equivalents. In terms of capital movements, outflows of £258m for project expenditure and additions were largely offset by £210m of property disposal proceeds. As a result, Group borrowings were almost unchanged at 31 December 2022 compared to a year earlier.

Group borrowings at both year ends were £1.25bn, the 2022 figure being about £300,000 less than 2021. Leasehold liabilities reduced in 2022 with the payment to TfL but long-term leasehold liabilities also increased to £34.5m after the receipt of a premium from an intermediate leaseholder. The net impact is that gross debt has fallen from £1.32bn in December 2021 to £1.28bn in December 2022. After adjusting for unrestricted cash and derivatives, net debt increased marginally over the year to £1.26bn.

On the new EPRA basis, our loan-to-value ratio increased a little to 23.9% from 22.3% in December 2021, the main reason for the increase being the property valuation declines in 2022. Available cash and undrawn facilities remained significant at £577m as at 31 December 2022 (£608m at 31 December 2021). Interest cover remained strong too at 4.2 times in 2022 (2021: 4.6 times). Our main debt covenant continues to be 1.45 times.

Maturity profile of debt facilities as at 31 December 2022



Debt and financing

Conditions in the debt markets deteriorated markedly in the second half of 2022 with central banks raising rates in an effort to deal with rapid inflation increases. With rates at that time expected to rise further and stay at these much higher levels for longer, market rates across the curve increased to levels not seen for many years. More recently, we have seen markets calm down significantly but are still some way ahead of where they were a year ago.

The UK 5-year swap rate peaked at around 5.4% in September 2022 but has since fallen back to around 4%. Similarly, the 10-year gilt increased to 4.6% at its peak but has since moved back to about 3.6%.

At the same time as rates were rising sharply, there was a sudden and significant increase in the credit spread that lenders required to accept the risk associated with typical corporate borrowers over and above the so-called 'risk-free' rate. Again, these spreads have been closing significantly in 2023 but remain elevated compared to more typical levels of recent years.

In these turbulent markets, we were helped by our high level of refinancing activity in previous years. Our only debt transaction in 2022 was the second one-year extension of the unsecured £100m revolving credit facility provided by Wells Fargo, taking its maturity to November 2027. At a time when loan extensions of this sort are not taken for granted, this was another indication of the strength of our banking relationships and we are grateful for the continuing strong support we have received from Wells Fargo and all of our lenders throughout 2022.

We have one remaining interest rate swap contract, providing a fixed rate of 1.36% to April 2025 on £75m of borrowings. As we had no floating rate borrowings at the balance sheet date, this contract has been deferred to start post the year end. With rates having risen so much in 2022, the fair value of this swap increased by £5.8m during the year.

Our next refinancing exposure arises in October 2024 on the £83m secured debt currently attracting a coupon of 3.99%. We will look to refinance this in due course and current expectations are that the cost of this will be a little higher than the current level.

At the year end, the Group's weighted average interest rate on a cash basis was 3.14%, the same as a year earlier, and 3.26% (31 December 2021: 3.27%) on an IFRS basis which adjusts for the convertible and green bonds. These figures indicate the advantage of having all of our debt at fixed rates as at the year end. The weighted average maturity of our borrowings was 6.2 years at 31 December 2022 compared to 7.2 years at 31 December 2021.

Debt facilities and reconciliation to borrowings and net debt at 31 December 2022

	Drawn £m	Undrawn £m	Total £m	Maturity
Unsecured convertible bonds	175.0	–	175.0	2025
Secured bonds	175.0	–	175.0	2026
Unsecured green bonds	350.0	–	350.0	2031
Unsecured private placement notes	455.0	–	455.0	2026 – 2034
Secured loan	83.0	–	83.0	2024
Other loan	19.7	–	19.7	n/a
Non-bank debt	1,257.7	–	1,257.7	
Club revolving credit – unsecured	–	450.0	450.0	2026
Bilateral revolving credit – unsecured	–	100.0	100.0	2027
Committed bank facilities	–	550.0	550.0	
Debt facilities	1,257.7	550.0	1,807.7	
Acquired fair value of secured bonds less amortisation	6.5			
Unamortised discount on unsecured green bonds	(1.7)			
Equity adjustment to convertible bonds less amortisation	(3.4)			
Unamortised issue and arrangement costs	(10.0)			
Borrowings	1,249.1			
Leasehold liabilities	35.0			
Cash at bank excluding restricted cash	(26.9)			
Net debt	1,257.2			

Debt: key stats

	2022	2021
Hedging profile (%)		
Fixed	100	99
Swaps	–	–
	100	99
Percentage of debt that is unsecured (%)	79	79
Percentage of non-bank debt (%)	100	99
Weighted average interest rate – cash basis (%)	3.14	3.14
Weighted average interest rate – IFRS basis (%)	3.26	3.27
Weighted average maturity of facilities (years)	5.5	6.5
Weighted average maturity of borrowings (years)	6.2	7.2
Undrawn facilities and unrestricted cash (£m)	577	608
Uncharged properties (£m)	4,600	4,769

Dividend

We continue to operate a progressive but well covered dividend policy, mindful also of our pension and other stakeholder obligations and responsibilities. The Board is recommending a 1.0p per share or 1.9% increase in the final dividend to 54.5p. It will be paid in June 2023 with 38.5p as a PID and the balance of 16.0p as a conventional dividend. The Company's ISIN reference is GB0002652740.

After adding in the interim 2022 dividend, the total dividend for the year amounts to 78.5p, 2.6% higher than for 2021. Dividend cover remains sound with dividends paid and declared in relation to 2022 earnings 1.36 times covered by EPRA earnings.

FINANCE REVIEW continued

REPORTING UNDER THE GREEN FINANCE FRAMEWORK

Derwent London's Green Finance Framework (the Framework) has been prepared in line with the LMA Green Loan Principles and ICMA Green Bond Principles guidance document, has been externally reviewed and a second party opinion has been obtained. The latest Framework is available on our website at www.derwentlondon.com

Out of our total debt facilities of £1.8bn, £650m satisfy our definition of Green Financing Transactions (GFTs). The GFTs comprise the £350m Green Bond issuance in 2021 and a £300m 'green' tranche included within our main corporate £450m revolving credit facility taken out in 2019. Together these are used to fund qualifying green expenditure.

In accordance with the reporting requirements set out in the Framework, we are disclosing the Eligible Green Projects (EGPs) that have benefitted from our Green Financing Transactions, and the allocation of drawn funds to each project.

The projects eligible for funds from the GFTs are as follows:

Green project	80 Charlotte Street W1	Soho Place W1	The Featherstone Building EC1	25 Baker Street W1 ¹
Expected completion date	Completed in 2020	Completed in 2022	Completed in 2022	2025
Category for eligibility	Green building, criterion 1 of section 3.1 of the Framework (excludes Asta House and Charlotte Apartments)	Green building, criterion 1 of section 3.1 of the Framework (excludes Site B – Theatre)	Green building, criterion 1 of section 3.1 of the Framework	Green building, criterion 1 of section 3.1 of the Framework (excludes retail and refurbished residential)
Impact reporting indicator	Building certification achieved (system & rating)	Building certification achieved (system & rating)	Building certification achieved (system & rating)	Building certification achieved (system & rating)
Green credentials²	<p>Achieved: BREEAM – Excellent (post-construction) EPC – B</p> <p>Expected: LEED – Gold, on target</p>	<p>1 Soho Place (Site A)</p> <p>Achieved: BREEAM – Outstanding (post-construction) EPC – B</p> <p>LEED – Gold</p> <p>2&4 Soho Place (Site B) offices – DISPOSED OF IN 2022</p> <p>Achieved: BREEAM – Excellent (design stage) EPC – B</p> <p>Expected: BREEAM – Excellent (post-construction), on target</p>	<p>Achieved: BREEAM – Outstanding (post-construction) EPC – A</p> <p>Expected: LEED – Platinum, on target</p>	<p>Offices</p> <p>Achieved: BREEAM – Outstanding (design stage)</p> <p>Expected: BREEAM – Outstanding (post-construction) LEED – Gold, on target EPC – B, on target</p> <p>Private residential</p> <p>Expected: Home Quality Mark – 4 Stars (design stage), on target</p>

¹ Previously known as 19-35 Baker Street W1.

² Green EGP credentials disclosed in accordance with the Framework and the Green Finance Basis of Reporting, available on our website and within the Responsibility Report.

Qualifying 'green' expenditure

The qualifying expenditure as at 31 December 2022 for each project is set out in the table below. This includes an element of 'look back' capital expenditure on projects in which expenditure had been incurred prior to management's approval of the project as an EGP. This also includes capital expenditure on projects which had already been incurred as at the original refinancing date in October 2019.

Soho Place W1 and The Featherstone Building EC1 both commenced on site in 2019 and reached practical completion in H1 2022. Soho Place Site B was disposed of in the year and, in accordance with section 3.3 of the Framework, the expenditure allocated to Site B has therefore been removed from the qualifying expenditure.

The 25 Baker Street W1¹ scheme commenced on site in October 2021 and is due to reach practical completion in 2025.

Cumulative spend on each EGP as at the reporting date

EGP	Look back spend £m	Subsequent spend		Disposals £m	Cumulative spend £m
		Q4 2019 – FY 2021 £m	2022 spend £m		
80 Charlotte Street W1	185.6	51.6	0.9	–	238.1
Soho Place W1	66.3	137.6	55.2	(34.8)	224.3
The Featherstone Building EC1	29.1	60.3	7.3	–	96.7
25 Baker Street W1 ¹	26.5	5.8	36.5	–	68.8
	307.5	255.3	99.9	(34.8)	627.9

1 Previously known as 19-35 Baker Street W1.

After deducting all previously eligible expenditure on Soho Place Site B of £34.8m, the cumulative qualifying expenditure on EGPs was £627.9m. Total qualifying expenditure incurred in 2022 was £99.9m.

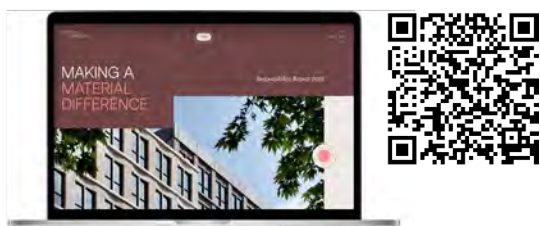
Drawn borrowings from GFTs as at 31 December 2022 were £350m, which comprised of the £350m Green Bonds with £nil drawn under the green tranche of the RCF. Therefore, there was £300.0m undrawn under the green tranche of the Group's RCF as at 31 December 2022, of which £277.9m was available to fund future cash flow requirements of the Group.

A requirement under the Framework and the facility agreement is for there to be an excess of qualifying spend on EGPs over the amount of drawn borrowings from all GFTs which, as shown above, has been met.

Green borrowings and qualifying expenditure



➤ MORE INFORMATION CAN BE FOUND IN THE RESPONSIBILITY REPORT



➤ reports.derwentlondon.com/responsibility-2022



➤ www.derwentlondon.com/greenfinance

GOING CONCERN & VIABILITY

INTRODUCTION

In accordance with the 2018 UK Corporate Governance Code (the Code), the Directors and senior management team assessed the prospects of the Company and potential threats to our resilience:

- in the short-term (over the next 12 months as required by the 'Going concern' provision); and
- in the medium-term (a five-year period to 31 December 2027) as required by the 'Viability statement' provision.

This statement also contains references to the longer term threats to the Company's resilience (beyond the five-year period).

SHORT-TERM

Under provision 30 of the Code, the Board is required to report whether it considers it appropriate to adopt the going concern basis of accounting in the preparation of our financial statements. The assessment focused primarily on the short-term and at least the next 12 months to March 2024. The Directors' assessment included consideration of:

- the Group's current financial position;
- the higher levels of inflation seen in 2022;
- the latest rolling forecast for the next two years;
- the timing of repayment of existing financing facilities;
- potential sources of replacement financing; and
- any material uncertainties or assumptions.

The Group is in a strong financial position. At 31 December 2022, the Group has:

- £577m of undrawn facilities and cash (2021: £608m);
- a low EPRA loan-to-value ratio of 23.9% (inc. share of joint ventures);
- a low overall cost of debt with a weighted average interest rate of 3.14% as at 31 December 2022;
- 100% of our borrowings either fixed or hedged;
- significant headroom on our financial covenants (see page 110); and
- strong interest cover of 423% (inc. share of joint ventures).

The Group has sufficient access to finance in the short-term and medium-term. At 31 December 2022, our average maturity of borrowings is 6.2 years and average maturity of facilities is 5.5 years. In addition, the Group has no immediate refinancing requirements, with the next loan maturity being the £83m secured loan with Mass Mutual, which matures in October 2024 (see page 104).

➤ DEBT AND FINANCING / See pages 104 and 105

Material uncertainties or assumptions

The Directors did not identify any material uncertainties to the Company's ability to continue to operate as a going concern over the period of its assessment. The key sources of estimation uncertainty in the next 12 months are considered to be:

- **Fall in property values:** The impact of yield changes on the Group's financial covenants and performance are monitored regularly and are subject to sensitivity analysis and testing against severe yet plausible 'downside' scenarios to ensure that adequate headroom is preserved. The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant operational impact on our business, requiring a fall of 60% in property values before our funding covenants would be breached.
- **Impairment review:** Sentiment amongst our occupiers improved through 2022, with rent collection levels across the office portfolio close to pre-Covid levels. However, due to the economic situation, rising interest rates and inflation, there remains a heightened risk of financial difficulty among some of our tenants. The methodology and assumptions used to review our receivable balances are subject to review by the external Auditors and Audit Committee (see page 159).

Key accounting issues or judgements are monitored and discussed with the Audit Committee throughout the year. The table on page 159 provides information on the key issues discussed in 2022 and the judgements adopted.

Group's risk register

The Schedule of Principal Risks contains the risks which are currently impacting on the Group or could impact the Group over the next 12 months. These risks are routinely subject to a comprehensive review by the Executive Committee, Risk Committee and the Board. Consideration is given to the risk likelihood, impact and velocity (speed at which the risk could impact on the Group).

The Board agreed that, given the level of headroom, none of the changes in risk likelihood or probability during the year (see page 113) had a significant impact on the Group's short-term viability.

GOING CONCERN STATEMENT

After making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence until at least March 2024. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.

MEDIUM-TERM

The Directors challenge the time period over which to assess the Company's medium-term viability on an annual basis. The Directors determined that the five-year period to 31 December 2027 remains an appropriate period based on the following:

- for a major scheme, five years is a reasonable approximation of the time taken from obtaining planning permission for a typical development to letting the property;
- most leases contain a five-year rent review pattern or break options. Therefore, five years allows for the forecasts to include the reversion arising from those reviews while also assessing the potential impact of income lost from breaks exercised; and
- our average maturity of borrowings is 6.2 years as at 31 December 2022.

As part of its assessment, the Board considered the Group's emerging risks (pages 124 to 125), including how these were being addressed. Emerging risks involve a high degree of uncertainty and are therefore factored into the Board's medium-term viability assessment and the long-term sustainability of the Group. The methodology used to review and identify emerging risks is on pages 174 to 175.

The Directors concluded that none of the individual emerging risks would in isolation or collectively compromise the Group's viability over the five-year period to 31 December 2027.

The Board's medium-term assessment focused on our strategy, finance and operations.

Viability of our strategy

The Board formally reviews its strategy on an annual basis to ensure it remains capable of sustainable value creation and is responding appropriately to changing macroeconomic conditions, work practices and stakeholder expectations (see page 138).

When assessing the viability of the Group's strategy, the Board's key qualifications and assumptions were:

- a continued focus on the central London office market;
- a strategy of recycling capital by selling buildings when we have maximised their potential, or they no longer meet our investment criteria, and purchasing buildings where there is an opportunity to replenish our development pipeline or add value via asset management or refurbishment;
- a property portfolio which remains approximately the same size, at 5.46m sq ft (2021: 5.57m sq ft); and
- a progressive dividend policy, whilst targeting dividend cover in or above the range of 125% to 150%.

The Board agreed that we have a proven business model which has allowed us to remain flexible and resilient during previous property cycles and periods of significant uncertainty. Additionally, we have the ability to flex our business plan to react to unforeseen circumstances by either selling a property to generate additional cash flow or commencing, stopping or scaling back projects to manage our capital expenditure.

Given the political and economic uncertainties, there has been a slowdown in both the investment and letting markets. However, the Directors noted that occupier demand remains good for the right product.

In the short-term, the Board agreed that no material change was required to its strategy, which continued to generate sustainable returns. Our strong financial position and proactive stakeholder-focused approach will help us to weather the economic and political uncertainty.

Sensitivity and scenario testing

A detailed five-year strategic review was conducted which considered the Group's cash flows, dividend cover, REIT compliance and other key financial ratios over the period. These metrics were subjected to sensitivity analysis to assess the Group's ability to deliver its strategic objectives.

The Directors stress tested our strategy against various scenarios to determine whether they were likely to have a significant impact on the Group's solvency and liquidity in the short- and medium-term.

The scenarios are amended each year as required, to reflect the key areas of concern identified by the Board. The six scenarios assessed were:

- a 'base case' scenario which was management's best estimate of market and business changes;
- three scenarios of varying negative movements in property values based on higher yield and lower rental growth assumptions, or a combination thereof;
- a 'downside' scenario which showed the impact of a 38% fall in our portfolio property values; and
- an 'upside' scenario which showed the impact of a more positive outlook on property values, rental growth and letting assumptions.

In all scenarios, our net interest cover remained above 3.95 times and our EPRA loan-to-value ratio below 40%, both of which are comfortably within our financial covenants.

The modelling indicated that under all scenarios the Group would still be able to execute its strategic plan over the next five years without breaching any covenants or experiencing any liquidity concerns (see page 110).

GOING CONCERN & VIABILITY continued

Nature of office occupation

The Directors considered changing work practices and tenant demand for amenity-rich sustainable space which has been identified as an emerging strategic risk for the Group.

The Board was satisfied that the business was:

- responding appropriately to the changing needs of our occupiers via bespoke solutions which recognise the differing demands of our diverse customer base. For larger occupiers, typically on longer leases, this might mean a combination of core and flex space with some optionality. For smaller occupiers looking for greater flexibility, our 'Furnished + Flexible' product provides an attractive solution (see page 20);
- delivering well-designed, adaptable and amenity-rich workspace. Our customer-focused approach led us to initiatives such as DL/78 in Fitzrovia. Due to its success, an equivalent shared amenity hub has been approved at The Featherstone Building EC1 (see page 24); and
- being proactive to ensure the achievement of our net zero carbon ambitions, operating a continuous upgrade/refurbishment programme to improve the sustainability credentials of our older buildings, and investing in Intelligent Building infrastructure to create sustainable spaces for our occupiers (see page 181).

Viability of our finances

Derwent London would become unviable if we were unable to meet our financial covenants. If this occurred, we would need to repay our debt borrowings, and this would likely require the sale of assets to meet these liabilities. As at 31 December 2022, we have significant headroom over our covenants, as shown below:

	Covenant	31/12/2022
Loan to value	≤ 60% ¹	39%
(specific assets)	≤ 70% ²	31%
Ratio of unencumbered assets to unsecured net debt	≤ 1.6 times	4.6 times
Group NAV gearing	≤ 145%	30.8%
Consolidated interest cover ³	> 145%	423%

1 6.5% secured bonds.

2 3.99% secured loan.

3 Includes joint ventures.

Our covenant headroom was subject to sensitivity analysis and scenario testing as part of the Group's strategy review. Even in the most extreme 'downside' scenario we modelled, the covenant ratios are covered and there is sufficient cash and unutilised facilities available.

For the Group to breach the NAV gearing limit, the value of our portfolio would have to fall in excess of £3.2bn (or by 60%). This is significantly higher than we have seen in recent market down cycles, the worst of which was following the Global Financial Crisis where the value of our underlying portfolio fell 34% but still outperformed the MSCI Central London Office Index which fell 43%. Moreover, we have the ability to move properties between the facilities to optimise headroom under covenants.

To assess the Group's liquidity and financial resilience, the Directors also reviewed:

- a detailed five-year strategic review which included assessment of the Group's cash flows, dividend cover, REIT compliance and other key financial ratios. These metrics were subjected to sensitivity analysis to assess the Group's ability to deliver its strategic objectives under varying market conditions;
- the risks which could impact on the Group's liquidity and solvency over the next 12 months, five years and the longer term; and
- the Group's emerging risks.

The Board's assessment highlighted that, despite the macroeconomic environment deteriorating during 2022, the Group benefits from:

- reasonable income visibility for the life of our leases which on average are 7.2 years (including rent-frees and pre-lets) with upward-only or contracted rent reviews. In addition to a known level of tenant lease expiries and breaks which is actively managed by our Asset Management team; and
- a high quality customer base of tenants, with none of our occupiers being responsible for more than 7% of total rental income and relatively low exposure to the retail and restaurant sectors.

Inflation

Inflation is classified as an emerging financial risk for the Group. The Directors considered the current and forecasted rate of inflation.

The Directors' assessment highlighted that inflation is likely to have an impact on the Group's overheads and on our ability to secure fixed price construction contracts in the medium-term (see page 113). Our occupiers will also be impacted by rising prices, including in respect of utility and service charges. The Directors considered that inflation was unlikely to compromise the Group's viability over the five-year period to 31 December 2027.

Viability of our operations

The Board received an update from the Chairs of the Audit and Risk Committees on the work performed during 2022 in respect to risk monitoring and reviewing the effectiveness of internal controls (see pages 161 and 171). It was noted that the Finance team were not aware of any significant financial loss arising from a breakdown of internal controls in the past three years and that during 2023, an independent assessment will be conducted to determine areas of focus for further strengthening of our controls.

Despite the political uncertainty arising from the conflict in Ukraine, and the subsequent impact on supply chains globally, our supply chain has been relatively unaffected due to our approach of early pre-ordering and storage. Early supply chain engagement in project designs helps with the identification of potential risks and alternative solutions.

We have a robust approach to cyber security which is routinely subject to independent testing (see pages 180 and 181). Our Intelligent Building Programme is a medium- to long-term initiative which will assist with meeting our net zero carbon ambitions, the strengthening of our portfolio's cyber security and cost savings for our occupiers.

Of the Group's emerging operational risks, the Board considered planning permission risks and EPC compliance to have the greatest potential impact on the Group in the medium-term. The actions being taken by the Group, in a market where the demand for high quality amenity-rich buildings is increasing, are detailed on pages 23 to 24.

Based on the Board's assessments, none of the operational principal or emerging risks currently facing the Group were likely to have a material impact on the Group's operations or cause it to become unviable in the short- to medium-term.

Related information is on the following pages:

- BUSINESS CONTINUITY AND DISASTER RECOVERY / See page 178
- ATTRACTING AND OPTIMISING TALENT / See page 59
- MANDATORY COMPLIANCE TRAINING / See page 171

VIABILITY STATEMENT

Based on the Board's assessments, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 December 2027.

LONG-TERM

The Board considered a number of longer term factors (which could impact on the Company and its business model in the next five to 10 years) and how these were being addressed. These factors included the impact of climate change and technology advancement.

Related information is on the following pages:

- OUR STRATEGY / See page 38
- OUR DEVELOPMENT PIPELINE / See page 12
- VALUE CREATION AND PRESERVATION / See page 138

Climate change

Derwent London is committed to be net zero carbon by 2030. The Group has conducted risk assessments against varying temperature scenarios (1.5°C, 2°C to 3°C, >4°C) to identify and assess our key transition and physical risks. The time frames used for these assessments have focused on our medium- and long-term resilience (see page 74).

Of the risks identified, none were likely to have a substantial impact on the viability of our business, although our cost profile could increase.

The Board receives updates on our progress to net zero carbon by 2030. The factors which could impact in our ability to become net zero carbon by 2030 have been identified as:

- **Newly acquired properties:** one of the ways we add value through our business model is by acquiring poorer quality buildings to regenerate. As a result, there is likely to always be an element of our portfolio which is progressing towards becoming net zero carbon.
- **Unmanaged portfolio:** within our portfolio we have a number of single-let buildings, with long leases, where the occupier is responsible for maintaining the property and ensuring its energy efficiency (currently 19% of our portfolio). As we are not responsible for the management of the building, this could be an area of challenge to achieving net zero carbon by 2030. We are actively engaging with these occupiers to promote the benefits of net zero carbon.
- **Emerging regulation and science:** our strategy to becoming net zero carbon will need to adapt in line with emerging regulation, planning policies and science.

At the Board's strategy awayday in June 2022, the Directors had a tour of the Scottish assets and the location of our future c.100-acre, 18.4MW solar park which is expected to generate in excess of 40% of the electricity needs of our managed London portfolio (see pages 7 and 55).

- NET ZERO CARBON / See page 27

Intelligent buildings

Adoption of technology is an emerging risk for the Group. Technology in our sector is advancing at a rapid pace.

The Executive Committee has monitored the phased roll-out of Intelligent Building infrastructure during the year. The Derwent London Intelligent Buildings Programme seeks to enable our buildings (where appropriate) to be digitally monitored and operated more efficiently, driving down equipment faults (and consequential maintenance) and delivering energy and operational carbon savings.

- INTELLIGENT BUILDINGS / See page 181

MANAGING RISKS

RISK IS INHERENT IN RUNNING ANY BUSINESS. OUR RISK MANAGEMENT APPROACH CENTRES ON PROACTIVE IDENTIFICATION, MITIGATION AND OVERSIGHT.

Wider risk environment

As a predominantly London-based Group, we are particularly sensitive to factors which impact upon central London's growth and demand for office space. We are also impacted by the wider macroeconomic, geopolitical and property-related risks and uncertainties.

The chart below provides an overview of the key risks and uncertainties which have impacted on the Group's risk profile during 2022, with links to further information.



External and property-related risks are factored into the Board's strategy discussions and help to inform the scenarios chosen by the Board to stress test the viability of our business (see page 109). The Risk Committee receives an update on changes to the Group's wider risk profile at each meeting and monitors a schedule of key risk indicators which, in addition to internal risk indicators, include external risk metrics such as construction cost inflation.

➤ **RISK DOCUMENTATION AND MONITORING / See page 174**

The risk profile of the Group

The Group's risk profile remained elevated during 2022 due to the political and economic uncertainty, although the risks arising from the Covid-19 pandemic have lessened.

In our interim results announcement, the Board reinstated a fall in property values as a principal risk for the Group. The current economic conditions have had an adverse impact on property yields, and there is a risk that property values could fall further in 2023 (see page 87).

We are operating in a changed interest rate environment following a long period of historically low rates. At 31 December 2022, all of our borrowings were at fixed rates. We also benefit from a £75m forward-start interest rate swap at 1.36% expiring in April 2025. This is immediately available against any floating rate debt drawn from our revolving credit facilities. In the short-term the Group has no immediate refinancing requirements (see page 105). At 31 December 2022, our average maturity of borrowings was 6.2 years and average maturity of facilities was 5.5 years.

As a consequence of inflation and economic uncertainty, some of our occupiers may face a more challenging financial situation, which could result in Derwent London having higher future vacancy rates and/or reduced rent receipts. The occupiers deemed to be most at risk are those which rely heavily on consumer spending such as retail and hospitality, which make up only 7% of the Group's income. Despite the economic uncertainty, London remains resilient and occupier demand remains good for the right product as the 'flight to quality' continues.

Climate change is a major global challenge and will impact how business operates in the future. Given that the built environment contributes significantly to the UK's overall carbon footprint, we are being proactive in finding solutions to further reduce emissions and develop renewable energy sources (see pages 7 and 52). There are concerns that planning policies in London may become more challenging. Planning authorities require development plans to benchmark embodied carbon against refurbishment of the existing building, which could lead to reduced development returns in the future.

Responsible risk mitigation

The impact of risk and uncertainties on our key stakeholders is factored into boardroom discussions and the development of responsible mitigation plans. Beyond the direct impact, the Board also considers the wider implications for stakeholders, including our occupiers, supply chain and local communities.

➤ **THE SECTION 172(1) STATEMENT / See pages 131 to 133**

Development risks

The success of our development activities is reliant on taking managed and carefully considered risk, which aims to deliver the office space our occupiers desire when it is needed. The Board and Risk Committee receives reports from the Director of Development on the Group's major developments, which includes a detailed assessment of the risks and risk mitigation plans in place.

Risk area	Comment
Inflation	Inflation is putting pressure on construction costs. Where possible, designs are diverted away from materials attracting higher price increases. We aim to fix most, if not all, of our construction costs to reduce our exposure to inflation. Due to the current economic situation, our ability to secure fixed priced contracts is likely to become increasingly difficult which may impact on future development returns. Due to the fixed price nature of these contracts, the risk exposure falls principally on our contractors. We have continued to monitor this carefully during the year. Industry consensus is that inflation is settling and will normalise to c.3% for 2023 and 2024.
Planning	Local authorities are requiring a high level of justification for demolition instead of refurbishment. A detailed assessment of the embodied energy of a new build versus a refurbishment is now required for the majority of schemes. There is a risk that this could result in Derwent London having to retain more secondary office space which is likely to be less attractive to occupiers in comparison to top quality new space. De-risking planning is achieved by a sound understanding of policy coupled with a collaborative approach with the borough and local community. We benefit from a strong track record of delivering quality and economic/social value.
Material and labour shortages	Material shortages have become more noticeable in recent years due to rising demand and supply chain disruption. Although shortages are beginning to ease, there is a risk that the supply of particular elements, such as microchip supply and other specialist components, will remain challenging. Our strategies of early ordering and strong supply chain relationships have mitigated any major impact on our current developments and the same strategy will be adopted for our future development pipeline. Derwent London uses 'Tier 1' contractors and subcontractors for project delivery, providing us with the best prospect of securing labour and repeat business. During 2022, none of our on-site projects experienced any significant issues in respect to labour.

We provide further information on the status of our three development-related principal risks on pages 118 and 119.

OUR PRINCIPAL & EMERGING RISKS

Principal risks

Our Directors have identified certain principal risks and uncertainties that could prevent the Group from achieving its strategic objectives and have assessed how these risks could best be mitigated, where possible, through a combination of internal controls, risk management and the purchase of insurance cover.

We define a principal risk as one that is currently impacting on the Group or could impact the Group over the next 12 months. These risks are reviewed and updated on a regular basis and were last formally assessed by the Board in February 2023.

The principal risks identified at 27 February 2023 are:

- Failure to implement the Group's strategy
- Risk of occupiers defaulting or occupier failure
- Income decline
- Fall in property values (new)
- Reduced development returns
- 'On-site' risk
- Contractor/subcontractor default
- Cyber attack on our IT systems
- Cyber attack on our buildings
- Significant business interruption
- Reputational damage
- Our resilience to climate change
- Non-compliance with health and safety legislation
- Other regulatory non-compliance

➤ OUR PRINCIPAL RISKS / See pages 116 to 123

Emerging risks

An emerging risk is a condition, situation or trend that could significantly impact the Group's financial strength, competitive position or reputation within the next five years. Emerging risks could involve a high degree of uncertainty and are therefore factored into the Board's viability assessment and strategic planning process.

During 2022, the Risk Committee split the risk 'Impact on businesses arising from the UK's commitment to be net zero carbon by 2050' into two separate emerging risks to enable greater oversight: Energy Performance Certificate (EPC) compliance and Renewable energy and related risks.

The emerging risks identified by the Board are:

- Nature of office occupation
- Inflation (new)
- Adoption of technology
- Energy Performance Certificate (EPC) compliance (new)
- Renewable energy provision and related risks (new)
- Planning permission risks
- The importance of ESG-related concerns to our key stakeholders
- Shortage of electrical power (new)

➤ OUR EMERGING RISKS / See pages 124 to 125

MANAGING RISKS continued

Lease expiries and vacancies

To provide flexibility within our portfolio for project work, and to secure the continuity of our income, we manage our lease expiries/breaks so that a percentage expire each year.

At the start of 2022, 9% of passing rent was subject to break or expiry in the year. After adjusting for space taken back for schemes, 79% of breaks and expiries were retained or re-let by year end. This compares to our 10-year average retention/re-let rate of 85%.

In 2023, 10% of passing rent is subject to break or expiry, a reduction from the 15% potentially at risk as at June 2022 following pre-emptive action by our Asset Management team. The Risk Committee will continue to receive updates on the work of the Asset Management team to reduce the Group's exposure, with lease expiries/breaks included on its schedule of key risk indicators which is monitored at each meeting.

Credit Committee

We hold weekly Credit Committee meetings to assess and monitor the financial strength of potential and existing occupiers. The Credit Committee is chaired by the CEO and its members include Damian Wisniewski (CFO) and senior members of the Finance, Leasing, Property and Asset Management teams.

At 31 December 2022, the 20 occupiers included on the 'tenants on watch' register represented 2% of the Group's contracted net rental income, and mainly consist of businesses operating in retail and hospitality sectors.

Derwent London brand

The Derwent London brand is well-regarded and respected within our industry and we are recognised for innovation and developing design-led buildings. The protection of our brand and reputation is important to the future success of the Group and is considered a principal risk. We detail on page 121 the actions we have taken during 2022 to protect our reputation.

We demonstrate our brand and values through our external memberships and associations. For example, we are founding supporters of Real Estate Balance, members of the UK Green Building Council, Mayor of London's Business Climate Leaders, the Better Buildings Partnership and a founding member of the Academy of Real Assets. We are also signed up to RE100 to demonstrate our commitment to 100% renewable energy in our buildings.

Climate change risks

Climate change is a material issue for our business and society. The Board has overall accountability for climate-related risks and opportunities, which it factors into its strategy and viability discussions. Climate change risks are identified and monitored as part of our wider risk management procedures (see page 174 and the example below).

➤ RENEWABLE ENERGY PROVISION AND RELATED RISKS (EMERGING RISK E) / See page 125

Identify

Renewable energy is a key element of our Net Zero Carbon Pathway. Ultimately our ambition is to ensure that all the energy we procure is from renewable sources i.e. both electricity and gas. During the development of our pathway, the potential risks to its achievement were identified through discussions with third party advisers and internal workshops.

Assess

We sought independent assistance with the assessment of our climate-related risks in both 2020 and 2022 (see page 74). The implications on our ability to achieve our pathway if we are unable to source renewable supplies was assessed, including the financial impact. During 2022, the Risk Committee classified renewable energy provision as an emerging risk for the Group.

Monitor

The availability of fully traceable 'direct from the source' supplies is being monitored by the Sustainability team. Oversight is provided by the Responsible Business Committee and Risk Committee who receive periodic updates. The Risk Committee received a presentation on sustainable energy at its meeting in August 2022.

Respond

At 31 December 2022, 100% of our electricity and supplies are procured from REGO-backed tariffs and green gas tariffs, respectively. In 2022, we obtained resolution to grant planning permission for a solar park on our Scottish land to generate renewable energy. We will continue to research and assess the opportunities for renewable energy generation.

➤ FURTHER INFORMATION ON THE MANAGEMENT OF CLIMATE CHANGE RISK / See pages 72 to 83 and 122

Risk management

The Board has conducted a robust assessment of the Group's emerging and principal risks (see pages 113 and 171) and has ultimate responsibility for the Group's overall approach to risk management. To ensure focused oversight, the Board operates a separate Risk Committee (its report is on pages 170 to 181). In addition, all of the Board's principal committees are responsible for mitigating risk related to its activities, for example, the assumptions made in the preparation of the Group's financial statements (Audit Committee), the need for robust succession planning (Nominations Committee) and the possibility of risk-taking beyond the Board's risk appetite in our remuneration structures (Remuneration Committee).

Responsibility for implementing our risk management strategy rests with the Executive Directors, with assistance from the Executive Committee. Our risk management structure is on page 176. Effective risk management requires all staff to adopt an open communication attitude to identifying threats early enough to enable risks to be properly assessed and mitigating strategies and controls to be implemented as necessary. We operate a mandatory compliance training programme for all staff, including Directors, which aims to raise awareness of key risk areas and our obligations (see page 171).

Our risk management procedures are regularly reviewed and strengthened to ensure that all foreseeable and emerging risks are identified, understood and managed. Our risk management framework is on page 174.

Risk tolerance

The Group's risk tolerance is set by the Board and is the level of risk we are willing to accept to achieve our strategic objectives. Our overall risk tolerance is low and is contained in our Risk Appetite Statement (see the table below for an overview of this statement). This tolerance, alongside our culture, informs how our staff respond to risk. Due to our open and collaborative working style, any potential problem, risk or issue is identified quickly so appropriate action can be taken.

Category	Risk tolerance	
Operational		
Operational risks include, for example, health and safety risks, continuity of the IT system and retention of the senior management team.	Health and safety	Zero
	IT continuity	Low
	Staff retention	Medium
	Climate change resilience	Low
	Other operational risks	Medium
Financial*		
Other than market driven movements that are beyond the Group's immediate control, the Group will not generally accept risks where it is probable that: <ul style="list-style-type: none"> Asset values decline by more than £100m from the Group's annual budget. EPRA profit before tax deviates by more than £5m from the Group's annual budget. Cost overruns occur on capital projects of more than 5% of the approved capex budget. The Group's interest cover ratio will fall to within 20% of the level set in the Group's borrowing covenants. 	REIT status	Low
	Credit rating	Low
	Decrease in asset value (>£100m)	Medium
	Profits (>£5m)	Medium
	Cost overruns (>5%)	Medium
	Interest cover (<20%)	Medium
It is recognised that inherent market risk may result in these financial tolerances, in particular the assets limit, being exceeded. The Board accepts this market risk but seeks to manage and mitigate its impact where possible.		
Reputational		
The Group has a low tolerance for risk in connection with reputational risk. In particular, this level of risk tolerance relates to any action that could adversely affect the Derwent brand.	Brand value	Low
Regulatory		
The Group's tolerance for regulatory risk arising from statute or the UK Corporate Governance Code and from adherence to 'best practice' guides.	Statutory	Zero
	Governance	Low

* Financial amounts are measures of deviation from Group annual budget.

Zero	The Board has a zero-tolerance approach and is committed to promoting full health & safety and statutory compliance
Low	The Board is risk averse and is reluctant to take risks

Medium	The Board is willing to take measured risks if they are identified, assessed and controlled
High	The Board is willing to take significant risks


MANAGING RISKS continued

OUR PRINCIPAL RISKS

The principal risks and uncertainties facing the Group in 2023 are set out on pages 116 to 123. We define a principal risk as one that is currently impacting on the Group or could impact the Group over the next 12 months. Our principal risks are not an exhaustive list of all risks facing the Group but are a snapshot of the Company's main risk profile as at 27 February 2023. The key controls identified were in operation during the year under review and up to the date the 2022 Report & Accounts was approved.

STRATEGIC

The Group's business model and/or strategy does not create the anticipated shareholder value or fails to meet investors' and other stakeholders' expectations.

Risk	Key controls	Our actions
1. FAILURE TO IMPLEMENT THE GROUP'S STRATEGY		
<p>The Group's success depends on implementing its strategy and responding appropriately to internal and external factors including responding to changing work practices, occupational demand, economic and property cycles, and London's global appeal. The London office market has generally been cyclical in recent decades, with strong growth followed by sharp economic downturns, precipitated by rising interest rates and often coinciding with significant oversupply.</p> <p>RISK TOLERANCE: LOW The Board is risk averse and is reluctant to take risks.</p> <p>EXECUTIVE RESPONSIBILITY: Paul Williams (CEO)</p> <p>IMPACT: Should the Group fail to respond and adapt to such cycles or execute the projects that underpin its strategy, it may have a negative impact on the Group's expected growth and financial performance.</p> <p>STRATEGIC OBJECTIVES 1 2 3 4 5</p> <p>STAKEHOLDERS: Could potentially impact on all our stakeholders</p> <p>TREND: </p> <p>UK inflation rose substantially, peaking at c.11%, during 2022. Interest rates increased from a historically low 0.1% to 3.5% in 2022. Bond Yields and Gilts have also risen sharply (albeit from low bases). Given the political and economic uncertainties, there has been a slowdown in both investment and letting activities however, occupier demand in London remains good for the right product and the flight to quality continues.</p>	<ul style="list-style-type: none"> The Board approves the strategic plan and significant projects, which includes the development pipeline. The development pipeline has a degree of flexibility that enables plans for individual properties to be changed to reflect prevailing economic circumstances. An annual strategic review and budget is prepared for Board approval alongside two-year rolling forecasts which are prepared three times a year. The Board considers the sensitivity of the Group KPIs to changes in the assumptions underlying our forecasts in light of anticipated economic conditions. If necessary, modifications are made. We develop properties in locations where there is good potential for future demand, such as near the Elizabeth line. We do not have any properties in the City or Docklands. We maintain income from properties until development commences and have an ongoing strategy to extend income through lease renewals and regears. We regularly de-risk developments through pre-lets. The Credit Committee, chaired by either the CEO or CFO, assesses and monitors the financial strength of potential and existing occupiers. The Group's diverse and high quality occupier base provides resilience against occupier default. We also maintain close and frequent contact with our occupiers. We maintain sufficient headroom for all the key ratios and financial covenants, with a particular focus on interest cover. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total return Total property return Total shareholder return EPRA earnings per share <p>In addition, we also consider inflation, interest rates and yield changes.</p>	<p>2022</p> <ul style="list-style-type: none"> The Board held its annual Strategy Awayday on 16 June 2022 to discuss the Group's five-year strategy. The Board's strategy awayday included discussions on: <ul style="list-style-type: none"> the sensitivity of our KPIs to changes in underlying assumptions including interest rates, timing of projects, average rents, level of capital expenditure and the extent of capital recycling; and opportunities for acquisitions and disposals to recycle capital. Monitored our portfolio for further asset management activities and managed the vacancy rate which has risen to 6.4% from 1.6%. Monitored letting progress and demand for our buildings. Progressed opportunities to self-generate renewable energy from our land holdings in Scotland and maintained dialogue with our occupiers to align our net zero carbon journeys. Received political and economic updates from external advisers throughout the year. Regularly liaise with occupiers to ensure our buildings are meeting their demands. <p>2023</p> <ul style="list-style-type: none"> Examine opportunities for acquisitions and, in order to recycle capital, identify assets for disposal. Seek further opportunities within the portfolio to upgrade or reposition assets to maximise returns, increase our 'Furnished + Flexible' offering and exploring Life Sciences possibilities. Continue with our current controls and mitigating actions, including operating the business on a basis that balances risk and income generation.

STRATEGIC OBJECTIVES

- 1** To optimise returns and create value from a balanced portfolio
- 2** To grow recurring earnings and cash flow
- 3** To attract, retain and develop talented employees



- 4** To design, deliver and operate our buildings responsibly
- 5** To maintain strong and flexible financing

TREND

-  Increased
-  Unchanged
-  Decreased


FINANCIAL

The main financial risk is that the Group becomes unable to meet its financial obligations, which is not currently a principal risk. Financial risks can arise from movements in the financial markets in which we operate and inefficient management of capital resources.

Risk	Key controls	Our actions
2. RISK OF OCCUPIERS DEFAULTING OR OCCUPIER FAILURE		
<p>The majority of the Group's revenues comprise rent received from our occupiers and any deterioration in their businesses and/or profitability could in turn adversely affect the Group's rental income or increase the Group's bad debts and/or number of lease terminations.</p> <p>RISK TOLERANCE: MEDIUM</p> <p>The Board is willing to take measured risks if they are identified, assessed and controlled.</p> <p>EXECUTIVE RESPONSIBILITY: Paul Williams (CEO)</p> <p>IMPACT: In the event that some of our occupiers went into default, we could incur impairments and write-offs of IFRS 16 lease incentive receivable balances which arise from the accounting requirement to spread any rent-free incentives given to an occupier over the respective lease term, in addition to a loss of rental income.</p> <p>STRATEGIC OBJECTIVES: 1 2 3 4 5</p> <p>STAKEHOLDERS: Occupiers, shareholders and debt providers</p> <p>TREND: </p> <p>Due to the current economic conditions, our occupiers could be facing increased financial difficulty. The energy pricing crisis, the 10.1% increase in the London Living Wage and inflation have placed considerable pressure on our service charge operating levels. Significant cost increases pose a greater risk of occupier default and late payment.</p>	<ul style="list-style-type: none"> The Credit Committee, chaired by either the CEO or CFO, assesses and monitors the financial strength of potential and existing occupiers, with detailed reviews of all prospective occupiers being performed. A 'tenants on watch' register is maintained and regularly reviewed by the Executive Committee and the Board. Active rent collection, with regular reports to the Executive Committee on day 1, 7, 14 and 21. We maintain close and frequent contact with our occupiers. Rent deposits are held where considered appropriate. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Tenant retention Void management <p>In addition, we consider our Lease Incentive Debtor (LID) balance and level of rent deposits.</p>	<p>2022</p> <ul style="list-style-type: none"> We have maintained proactive engagement with our occupiers, dealing with their concerns on a case-by-case basis and supporting them as appropriate. The Credit Committee continued to meet on a frequent basis, at least weekly. We continue to support certain restaurants, retail and leisure occupiers in our buildings, as these businesses add value to our buildings and are seen as amenities for our other occupiers and local residents. <p>2023</p> <ul style="list-style-type: none"> Continue with our current controls and mitigating actions.
3. INCOME DECLINE		
<p>Changes in macroeconomic factors may adversely affect London's office market. The Group is exposed to external factors which are outside the Group's control, such as future demand for office space, the 'cost of living' crisis, the 'grey' market in office space (i.e. occupier controlled vacant space), weaknesses in retail and hospitality businesses, increase in hybrid working and the depth of a recession, and subsequent rise in unemployment and/or interest rates.</p> <p>RISK TOLERANCE: MEDIUM</p> <p>The Board is willing to take measured risks if they are identified, assessed and controlled.</p> <p>EXECUTIVE RESPONSIBILITY: Paul Williams (CEO)</p> <p>IMPACT: Such macroeconomic conditions lead to a general property market contraction, a decline in rental values and Group income, which could impact on property valuation yields.</p> <p>STRATEGIC OBJECTIVES: 1 2 3 4 5</p> <p>STAKEHOLDERS: Shareholders and debt providers</p> <p>TREND: </p> <p>Although not likely to impact on the Group in the short-term, the current economic situation could lead to some of our occupiers facing a more challenging financial situation. Footfall at restaurants, retail and leisure properties is likely to reduce, as consumer spending slows, which could impact on the revenues and operations of such occupiers. Restaurants and hospitality occupiers account for approximately 7% of the Group's portfolio income. During a recession, transactions can take longer to finalise, occupiers tend to adopt a 'wait-and-see' approach leading to a greater risk of aborted transactions.</p>	<ul style="list-style-type: none"> The Credit Committee receives detailed reviews of all prospective occupiers. A 'tenants on watch' register is maintained and regularly reviewed by the Executive Committee and the Board. Ongoing dialogue is maintained with occupiers to understand their concerns and requirements. The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant impact on our business continuity. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Reversionary percentage Tenant retention Void management <p>In addition, we consider the amount of 'grey space' and lease expiries/breaks.</p>	<p>2022</p> <ul style="list-style-type: none"> The Group produced a budget, strategic review and three rolling forecasts during the year which contain detailed sensitivity analyses including the effect of changes to valuation yields. The 'tenants on watch' register was regularly reviewed to carefully monitor the financial performance of existing occupiers. We maintained proactive engagement with our occupiers, dealing with their concerns on a case-by-case basis and supporting them as appropriate. We worked to reduce our lease expiry exposure in 2022 through asset management activities and good relationships with our occupiers. Quarterly management accounts are provided to the Board. <p>2023</p> <ul style="list-style-type: none"> Continue with our current controls and mitigating actions, including operating the business on a basis that balances risk and income generation.


MANAGING RISKS continued

FINANCIAL continued

Risk	Key controls	Our actions
4. FALL IN PROPERTY VALUES NEW		
<p>The potential adverse impact of the economic and political environment on property yields has heightened the risk of a fall in property values.</p> <p>RISK TOLERANCE: MEDIUM</p> <p>The Board is willing to take measured risks if they are identified, assessed and controlled.</p> <p>EXECUTIVE RESPONSIBILITY: Nigel George (Director)</p> <p>IMPACT: A fall in property values will have an impact on the Group's net asset value and gearing levels.</p> <p>STRATEGIC OBJECTIVES: 1 2 3 4 5</p> <p>STAKEHOLDERS: Occupiers, shareholders and debt providers</p> <p>TREND: </p> <p>A fall in property values was classified as a principal risk by the Risk Committee in August 2022 and was published in our interim statement. Since July, the MSCI Central London Office Monthly Index has shown negative capital growth movements. At 31 December 2022, the valuation of our portfolio had fallen by 6.8%. It is anticipated that property values could fall further in 2023. Despite the economic uncertainty, London remains resilient and occupier demand remains good for the right product and the flight to quality continues.</p>	<ul style="list-style-type: none"> The impact of yield changes is considered when potential projects are appraised. The impact of yield changes on the Group's financial covenants and performance is monitored regularly and subject to sensitivity analysis to ensure that adequate headroom is preserved. The Group's mainly unsecured financing makes management of our financial covenants more straightforward. The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant operational impact on our business. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total property return Void management Reversionary percentage <p>In addition, we consider changes in property yields.</p>	<p>2022</p> <ul style="list-style-type: none"> The Group produced a budget, five-year strategic review and three rolling forecasts during the year which contain detailed sensitivity analyses, including the effect of changes to valuation yields. Quarterly management accounts were provided to the Board and included the Group's performance against the financial covenants. Disposed of a combination of assets above book value for £206m (see page 4). <p>2023</p> <ul style="list-style-type: none"> Continue to examine opportunities for further disposals to recycle capital. Continue with our current controls and mitigating actions.

OPERATIONAL

The Group suffers either a financial loss or adverse consequences due to processes being inadequate or not operating correctly, human factors or other external events.

Risk	Key controls	Our actions
5A. REDUCED DEVELOPMENT RETURNS		
<p>Returns from the Group's developments may be adversely impacted due to: delays on site; increased construction costs; material and labour shortages; and adverse letting conditions.</p> <p>RISK TOLERANCE: MEDIUM</p> <p>The Board is willing to take measured risks if they are identified, assessed and controlled.</p> <p>EXECUTIVE RESPONSIBILITY: Paul Williams (CEO)</p> <p>IMPACT: Any significant delay in completing the development projects may result in financial penalties or a reduction in the Group's targeted financial returns.</p> <p>STRATEGIC OBJECTIVES: 1 2 3 4 5</p> <p>STAKEHOLDERS: Suppliers and occupiers</p> <p>TREND: </p> <p>Planning authorities have an increasing preference for refurbishment instead of redevelopment. The Board is monitoring the potential impact of a tighter planning environment on our strategy and future development returns. Energy prices in the UK have been directly impacted by supply constraints to Europe of gas and oil from Russia and the increased cost of energy is driving significant inflation on many products – steel, cement, bricks, blocks and glass. We have secured a fixed price for 97% of the costs for the office element of our 25 Baker Street development. However, our ability to secure fixed price construction will be more challenging, and it is likely that only part of future contracts will be fixed.</p>	<ul style="list-style-type: none"> Our procurement process includes the use of highly regarded firms of quantity surveyors and is designed to minimise cost uncertainty. Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed price contracts are negotiated. Post-completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified, implemented and lessons learned. Investment appraisals are prepared and sensitivity analysis is undertaken to judge whether an adequate return is made in all likely circumstances. The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total return Total property return Development potential <p>In addition, we consider construction cost inflation and project budget status.</p>	<p>2022</p> <ul style="list-style-type: none"> We have a flexible development pipeline and, where appropriate, we deferred expenditure and decisions on future projects while keeping very close to our contractors, professional consultants and the project teams on site. Monitored construction cost inflation in relation to future projects. The Board and Executive Committee received regular updates on our principal developments including construction costs. Specific risk assessments on budget allowances for inflation are kept under review on a quarterly basis to test adequacy of budgets. <p>2023</p> <ul style="list-style-type: none"> Progress planning applications for 50 Baker Street (joint venture) and Old Street Quarter. Progress on-site activities at 25 Baker Street and Network. Seek to de-risk these projects by securing pre-lets on some of the space.

STRATEGIC OBJECTIVES

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TREND

- ▲ Increased
- Unchanged
- ▼ Decreased

Risk	Key controls	Our actions
5B. 'ON-SITE' RISK		
<p>If the Group fails to: (i) adequately appraise investments prior to starting work on site, including through taking into account contingencies and inflationary cost increases; (ii) use a procurement process that is properly designed (to minimise uncertainty around costs) and that includes the use of highly regarded quantity surveyors; (iii) benchmark development costs; (iv) conduct thorough site investigations to reduce the risk of unidentified issues such as asbestos; (v) implement its pre-letting strategy; or (vi) conduct detailed reviews on construction projects to evaluate programme forecasts made by contractors, development projects may be significantly delayed and we could face a loss of rental income and penalties.</p> <p>RISK TOLERANCE: MEDIUM The Board is willing to take measured risks if they are identified, assessed and controlled.</p> <p>EXECUTIVE RESPONSIBILITY: Paul Williams (CEO)</p> <p>IMPACT: Risk of project delays and/or cost overruns caused by unidentified issues.</p> <p>STRATEGIC OBJECTIVES: 1 2 3 4 5</p> <p>STAKEHOLDERS: Suppliers and occupiers</p> <p>TREND: ▸ Inflationary pressures resulting largely from the conflict in Ukraine and associated global supply chain disruption, is putting construction budgets under pressure.</p>	<ul style="list-style-type: none"> Regular monitoring of our contractors' cash flows. Frequent meetings with key contractors and subcontractors to review their work programme and maintain strong relationships. Off-site inspection of key components to ensure they have been completed to the requisite quality. Prior to construction beginning on site, we conduct site investigations including the building's history and various surveys to identify any potential issues. Monthly reviews of supply chain issues for each of our major projects, including in respect to potential labour shortages. Strict Covid-19 protocols are maintained at all of our on-site developments, in accordance with Site Operating Procedures (published by the Construction Leadership Council). <p>Key performance indicators:</p> <ul style="list-style-type: none"> Accident Frequency Rate Total property return BREEAM ratings <p>In addition, we consider pre-lets in order to mitigate letting risks.</p>	<p>2022</p> <ul style="list-style-type: none"> Engage continuously with our contractors, subcontractors and supply chain to understand the impact of the Ukraine conflict and rising inflation on their operations. The Board and Executive Committee received regular updates on our principal developments. Final accounts have been agreed for The Featherstone Building and Soho Place. Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. <p>2023</p> <ul style="list-style-type: none"> Continue with our current controls and mitigating actions.
5C. CONTRACTOR/SUBCONTRACTOR DEFAULT		
<p>There have been ongoing issues within the construction industry in respect of the level of risk and narrow profit margins being accepted by contractors.</p> <p>RISK TOLERANCE: MEDIUM The Board is willing to take measured risks if they are identified, assessed and controlled.</p> <p>EXECUTIVE RESPONSIBILITY: Paul Williams (CEO)</p> <p>IMPACT: Returns from the Group's developments are reduced due to delays and cost increases caused by either a main contractor or major subcontractor defaulting during the project.</p> <p>STRATEGIC OBJECTIVES: 1 2 3 4 5</p> <p>STAKEHOLDERS: Suppliers and occupiers</p> <p>TREND: ▲ There is an increased risk of insolvencies in the construction industry as a result of rising inflation and construction costs, which under fixed price contracts are a risk for the contractor. We have engaged with our principal contractors to ensure they have sufficient headroom under the fixed contracts to cope with rising costs. In respect to Network Building W1, we have liaised with our contractor, subcontractors and supply chain at an earlier design stage so that the developments programme and costs can be agreed collaboratively. We will continue to actively monitor the financial health of our main contractors and subcontractors.</p>	<ul style="list-style-type: none"> We use known 'Tier 1' contractors with whom we have established working relationships. Regular monitoring of our contractors, including their project cash flows, is carried out. Key construction packages are acquired early in the project's life to reduce the risks associated with later default. The financial standing of our main contractors is reviewed prior to awarding the project contract. Our main contractors are responsible, and assume the immediate risk, for subcontractor default. Payments to contractors are in place to incentivise the achievement of project timescales, with damages agreed in the event of delay/cost overruns. Regular on-site supervision by a dedicated Project Manager who monitors contractor performance and identifies problems at an early stage, thereby enabling remedial action to be taken. Contractors are paid promptly and are encouraged to pay subcontractors promptly. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total return Total property return <p>In addition, we consider average payment days to our suppliers, project delays and construction cost inflation.</p>	<p>2022</p> <ul style="list-style-type: none"> Engaged continuously with our contractors, subcontractors and supply chain to understand the impact of the Ukraine conflict and rising inflation on their operations. Final accounts have been agreed for The Featherstone Building and Soho Place. Our suppliers were paid on average within 22.6 days. Accepted early ordering of materials ahead of their need on site to accelerate cash flow to our supply chain. The Board and Executive Committee received regular updates on our principal developments. Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. <p>2023</p> <ul style="list-style-type: none"> Continue with our current controls and mitigating actions.

MANAGING RISKS continued

OPERATIONAL continued

Risk	Key controls	Our actions
6A. CYBER ATTACK ON OUR IT SYSTEMS		
<p>The Group may be subject to a cyber attack that results in it being unable to use its information systems and/or losing data.</p> <p>RISK TOLERANCE: LOW</p> <p>The Board is risk averse and is reluctant to take risks.</p> <p>EXECUTIVE RESPONSIBILITY: David Lawler (Company Secretary)</p> <p>IMPACT: Such an attack could severely restrict the ability of the Group to operate, lead to an increase in costs and/or require a significant diversion of management time.</p> <p>STRATEGIC OBJECTIVES:</p> <p>1 2 3 4 5</p> <p>STAKEHOLDERS: Could potentially impact on all our stakeholders</p> <p>TREND: </p> <p>There has been a heightened risk of Russian cyber attacks amid escalating tensions over the conflict in Ukraine. To date, Derwent London has not experienced a significant increase in cyber attacks. The DIT team have been proactive in providing regular guidance and refresher training to all employees on cyber security matters.</p>	<ul style="list-style-type: none"> The Group's Business Continuity Plan and cyber security incident response procedures are regularly reviewed and tested. Independent internal and external penetration/vulnerability tests are regularly conducted to assess the effectiveness of the Group's security. Multi-Factor Authentication exists for remote access to our systems. Incident response and remediation processes are in place, which are regularly reviewed and tested. The Group's data is regularly backed up and replicated off-site. Our IT systems are protected by anti-virus software, 24/7/365 threat hunting, security incident detection and response, security anomaly detection and firewalls that are frequently updated. Frequent staff awareness and training programmes. Security measures are regularly reviewed by the IT team. <p>Key performance indicators:</p> <p>Could indirectly impact on a number of our other KPIs.</p> <p>In addition, we consider any security issues raised and the results of independent assurance reviews.</p>	<p>2022</p> <ul style="list-style-type: none"> Remediated any key findings from the last point-in-time vulnerability scan and introduced continuous vulnerability monitoring and remediation. Conducted a simulated 'phishing' exercise as part of the ongoing security awareness programme. Completed a business continuity technical test. IT Governance conducted a cyber response readiness assessment and provided recommendations to enhance our response playbooks and Business Continuity Plan. Performed a detailed review of our 'ransomware security incident response playbook' and completed a ransomware tabletop exercise. Introduced 24/7/365 threat hunting, detection, and response. We have arranged for a Sophos Rapid Response team to be on retainer. The Sophos Rapid Response team would provide unlimited support to our Cyber Incident Response Team in the event of a cyber attack. Enhanced our security patching and mobile device management capabilities to support a hybrid working model. <p>2023</p> <ul style="list-style-type: none"> Continue to develop and implement our IT governance framework. Review further training opportunities for our Cyber Incident Response Team. Renewal of our Cyber Essentials accreditation.
6B. CYBER ATTACK ON OUR BUILDINGS		
<p>The Group is exposed to cyber attacks on its properties which may result in data breaches or significant disruption to IT-enabled occupier services.</p> <p>RISK TOLERANCE: LOW</p> <p>The Board is risk averse and is reluctant to take risks.</p> <p>EXECUTIVE RESPONSIBILITY: David Lawler (Company Secretary)</p> <p>IMPACT: A major cyber attack against the Group or its properties could negatively impact the Group's business, reputation and operating results.</p> <p>STRATEGIC OBJECTIVES:</p> <p>1 2 3 4 5</p> <p>STAKEHOLDERS: Could potentially impact on all our stakeholders</p> <p>TREND: </p> <p>Our Intelligent Building Programme has completed its 'Proof of Concept' phase and roll out of Phase 1 has commenced. The project involves considerable input from various teams across the business including the DIT team. We have worked alongside our portfolio IT partner to conduct network and IT asset inventories and cyber security assessments.</p>	<ul style="list-style-type: none"> Our cyber security incident management procedures are regularly reviewed and tested. Physical segregation between the building's core IT infrastructure and occupiers' corporate IT networks. Physical segregation of IT infrastructure between buildings across the portfolio. Inclusion of Building Managers in any cyber security awareness training and phishing simulations. Sophos Rapid Response team provide unlimited support to our Cyber Incident Response Team in the event of a cyber attack. Frequent staff awareness and training programmes. <p>Key performance indicators:</p> <p>Could indirectly impact on a number of our other KPIs.</p> <p>In addition, we consider any security issues raised and the results of independent assurance reviews.</p>	<p>2022</p> <ul style="list-style-type: none"> Engaged with a portfolio IT partner to provide additional support for our information and communications technology (ICT) infrastructure and cyber security assessments. Conducted security reviews on network designs for any new buildings or refurbishments. Ensured that cyber security remains a key consideration in the delivery of intelligent buildings and digital initiatives. We have arranged for a Sophos Rapid Response team to be on retainer. The Sophos Rapid Response team would provide unlimited support to our Cyber Incident Response Team in the event of a cyber attack. Continued to collaborate with the IoT Security Foundation and other industry stakeholders on the development of a set of intelligent buildings security guidance documents. Sent phishing simulation tests to Building Managers. Completed mandatory security awareness training for all staff, including Building Managers. Implemented further security controls to enhance our layered defence model. Collaborated with our portfolio IT partner on mitigating any cyber risks identified following cyber security assessments. <p>2023</p> <ul style="list-style-type: none"> Further develop our IT governance framework, security monitoring and security incident response procedures.

STRATEGIC OBJECTIVES

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TREND

- ↗ Increased
- Unchanged
- ↘ Decreased

Risk	Key controls	Our actions
6C. SIGNIFICANT BUSINESS INTERRUPTION (FOR EXAMPLE, PANDEMIC, TERRORISM-RELATED EVENT OR OTHER BUSINESS INTERRUPTION)		
<p>Major incidents may significantly interrupt the Group's business, its occupiers and/ or supply chain. Such incidents could be caused by a wide range of events such as fire, natural catastrophes, cyber events, terrorism, pandemic outbreak, material supply chain failures and geopolitical factors.</p> <p>RISK TOLERANCE: MEDIUM</p> <p>The Board is willing to take measured risks if they are identified, assessed and controlled.</p> <p>EXECUTIVE RESPONSIBILITY: All Executive Directors</p> <p>IMPACT: This could result in issues such as being unable to access or operate the Group's properties, occupier failures or reduced rental income, share price volatility or loss of key suppliers.</p> <p>STRATEGIC OBJECTIVES: 1 2 3 4 5</p> <p>STAKEHOLDERS: Could potentially impact on all our stakeholders</p> <p>TREND: ></p> <p>The risks arising from the Covid-19 pandemic have reduced during 2022. Although not classified as a significant business interruption for Derwent London, the conflict in Ukraine has elevated global supply chain and market volatility.</p>	<ul style="list-style-type: none"> Fire protection and access/security procedures are in place at all of our managed properties. At least annually, a fire risk assessment and health and safety inspection are performed for each property in our managed portfolio. The Group has comprehensive business continuity and incident management procedures both at Group level and for each of our managed buildings which are regularly reviewed and tested. Continuous review of property health and safety statutory compliance. Government health guidelines are maintained at all of our construction sites. Comprehensive property damage and business interruption insurance which includes terrorism. Robust security at our buildings, including CCTV and access controls. Most of our employees are capable of working remotely and have the necessary IT resources. <p>Key performance indicators:</p> <p>Could indirectly impact on a number of our other KPIs.</p> <p>In addition, we consider any downtime incidences and the outcome of disaster recovery testing.</p>	<p>2022</p> <ul style="list-style-type: none"> Engaged with a portfolio IT partner to provide additional support for ICT infrastructure and cyber security assessments. Remediated any key findings from the last security penetration test and commissioned another independent internal/external test. Completed a business continuity technical test and full disaster recovery test. Conducted monthly vulnerability scans. Continued to configure secure VPN connections and deploy fully encrypted laptops to enable secure hybrid working capabilities. Provided additional employee awareness training on social media and remote working security best practice. <p>2023</p> <ul style="list-style-type: none"> Continue to work with our external fire consultants to be amongst the first UK property companies to implement a Fire Safety Management System in line with BS9997. Continue with our current controls and mitigating actions.
7. REPUTATIONAL DAMAGE		
<p>The Group's reputation could be damaged, for example, through unauthorised or inaccurate media coverage, unethical practices or behaviours by the Group's executives, or failure to comply with relevant legislation.</p> <p>RISK TOLERANCE: LOW</p> <p>The Board is risk averse and is reluctant to take risks.</p> <p>EXECUTIVE RESPONSIBILITY: All Executive Directors</p> <p>IMPACT: This could lead to a material adverse effect on the Group's operating performance and overall financial position. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrongdoing.</p> <p>STRATEGIC OBJECTIVES: 1 2 3 4 5</p> <p>STAKEHOLDERS: Could potentially impact on all our stakeholders</p> <p>TREND: ></p> <p>The Derwent London brand is well-regarded and respected within our industry. We demonstrate our brand and values through our external memberships and associations. We value integrity and transparency.</p>	<ul style="list-style-type: none"> Close involvement of senior management in day-to-day operations and established procedures for approving all external announcements. All new members of staff benefit from an induction programme and are issued with our Group staff handbook. The Group employs a Head of Investor Relations & Strategic Planning and retains services of an external PR agency, both of whom maintain regular contact with external media sources. A Group whistleblowing system for staff is maintained to report wrongdoing anonymously. Social media channels are monitored. Ongoing engagement with local communities in areas where the Group operates. Staff training and awareness programmes. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total shareholder return Accident frequency rate Staff satisfaction Could indirectly impact on a number of our other KPIs. <p>In addition, we consider compliance training completion rates and feedback received from employee and occupier 'pulse surveys'.</p>	<p>2022</p> <ul style="list-style-type: none"> Continued to implement a mandatory compliance training programme for all employees (including Directors). Maintaining regular engagement with key stakeholders. Monitored investor views and press comments. Worked alongside ELBA (East London Business Alliance) to launch an appeal aimed at offering urgent practical assistance to refugees and displaced people. This appeal is available on the DL/App so that our occupiers can take part. Launched a direct appeal to help the UK Disasters Emergency Committee with the thousands of people fleeing the conflict in Ukraine. The Derwent London Sponsorships & Donations Committee matched donations. Published our Code of Conduct & Business Ethics to all employees. Revised our values to three 'core' values and refined our purpose (see page 140). <p>2023</p> <ul style="list-style-type: none"> Continue to communicate and listen to our stakeholders. Support our staff's training requirements. Continue with our current controls and mitigating actions.

MANAGING RISKS continued

OPERATIONAL continued

Risk	Key controls	Our actions
8. OUR RESILIENCE TO CLIMATE CHANGE		
<p>If the Group fails to respond appropriately, and sufficiently, to climate-related risks or fails to benefit from the potential opportunities.</p> <p>RISK TOLERANCE: LOW</p> <p>The Board is risk averse and is reluctant to take risks.</p> <p>EXECUTIVE RESPONSIBILITY: Nigel George (Director)</p> <p>IMPACT: This could lead to reputational damage, loss of income and/or property values. In addition, there is a risk that the cost of construction materials and providing energy, water and other services to occupiers will rise.</p> <p>STRATEGIC OBJECTIVES:</p> <p>1 2 3 4 5</p> <p>STAKEHOLDERS: Could potentially impact on all our stakeholders</p> <p>TREND: </p> <p>The government has proposed increasing the minimum EPC rating to B by 2030. An increase in the minimum EPC rating will lead to increased capital expenditure requirements for the Group (see page 14). In addition, there is a limited supply of renewable energy sources and offset projects which is leading to price escalation.</p>	<ul style="list-style-type: none"> The Board and Executive Committee receive regular updates and presentations on environmental and sustainability performance and management matters as well as progress against our pathway to becoming net zero carbon by 2030. The Sustainability Committee monitors our performance and management controls. Strong team led by an experienced Head of Sustainability. The Group monitors its ESG (environmental, social and governance) reporting against various industry benchmarks. Production of an annual Responsibility Report with key data and performance points which are externally assured. In 2017 we adopted independently verified science-based carbon targets which have been approved by the Science-Based Targets initiative (SBTi). Undertake periodic multi-scenario climate risk assessments (physical and transition risks). <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total shareholder return BREEAM ratings Energy Performance Certificates Energy intensity Carbon intensity 	<p>2022</p> <ul style="list-style-type: none"> Published our annual Responsibility Report in April 2022. Received resolution to grant planning consent on a 18.4MW solar park on our Scottish land and investigated planting a further 425Ha of trees. Set embodied carbon targets for our new-build commercial developments. Increased climate-related engagement with occupiers to develop strategies on how we could support our occupiers achieving their goals. Agreed a strategy for the portfolio to achieve an EPC B grade or above by 2030 following the results of the feasibility and cost report. Updated our 'green' lease agreements further to include more stringent clauses for our occupiers on climate-related matters. Commissioned a further climate risk scenario assessment performed by Willis Towers Watson (WTW). <p>2023</p> <ul style="list-style-type: none"> Align our SBTi targets to a more challenging 1.5°C climate scenario in line with our net zero carbon ambition. Review the results of WTW's climate risk scenario assessment and agree mitigation plans, as required. Continue with our current controls and mitigating actions.
9A. NON-COMPLIANCE WITH HEALTH AND SAFETY LEGISLATION		
<p>An incident or breach of health and safety legislation, including in respect of fire safety, water hygiene, asbestos exposure, building safety, construction design management etc.</p> <p>RISK TOLERANCE: ZERO</p> <p>The Board has a zero-tolerance approach and is committed to promoting full health and safety compliance.</p> <p>EXECUTIVE RESPONSIBILITY: Paul Williams (CEO)</p> <p>IMPACT: A major health and safety incident could cause significant business interruption for the Group, a risk to life, Company or Director fines or imprisonment, reputational damage, and/or loss of our licences to operate.</p> <p>STRATEGIC OBJECTIVES:</p> <p>1 2 3 4 5</p> <p>STAKEHOLDERS: Could potentially impact on all our stakeholders</p> <p>TREND: </p> <p>The health and safety-related risks arising from the Covid-19 pandemic have considerably reduced during 2022. The business has prepared for the implementation of a new Fire Safety Management System aligned with the requirements of the Fire Safety and Building Safety Acts.</p>	<ul style="list-style-type: none"> All properties have the relevant health, safety and fire management procedures in place which are reviewed annually. The Group has a qualified Health and Safety team whose performance is monitored and managed by a Health & Safety Committee, chaired by the CEO. Health and safety statutory compliance within our managed portfolio is managed and monitored using a software compliance platform. This is supported by annual property health checks. The Managed Portfolio Health and Safety Manager supports our Portfolio and Building Managers to ensure statutory compliance. The Construction Health and Safety Manager ensures our Construction (Design and Management) Regulations (CDM) client duties are executed and monitored and reviews health, safety and welfare on each construction site on a monthly basis. The Board and Executive Committee receive frequent updates and presentations on health and safety. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Accident frequency rate Staff satisfaction <p>In addition, we consider feedback received from employee and occupier 'pulse surveys'.</p>	<p>2022</p> <ul style="list-style-type: none"> The Board and the Executive Committee received refresher health and safety training in September 2022. Appointed a new Head of Health and Safety and managed the transition period. Continued to improve our CDM procedures, engaging with our internal and external stakeholders through our new Continuous Improvement Group. Performed detailed roof and traffic management surveys of our managed portfolio. Arranged webinars for our employees on topics such as mental health awareness, men's health, menopause and sleep. <p>2023</p> <ul style="list-style-type: none"> Deliver a Fire Safety Management System in line with updated legislation and guidance (Building Safety Act 2022, BS9997 and the Fire Safety Act 2021). Develop building safety cases for residential buildings in scope of the Building Safety Act 2022. Embed health and safety competency in key operational aspects of the business, through a Health & Safety Training Matrix. Develop, with the Human Resources team, the Wellbeing Strategy for Derwent London. Continue with our current controls and mitigating actions.

STRATEGIC OBJECTIVES

- 1** To optimise returns and create value from a balanced portfolio
- 2** To grow recurring earnings and cash flow
- 3** To attract, retain and develop talented employees
- 4** To design, deliver and operate our buildings responsibly
- 5** To maintain strong and flexible financing

TREND

- ▲ Increased
- ▢ Unchanged
- ▼ Decreased

Risk	Key controls	Our actions
9B. OTHER REGULATORY NON-COMPLIANCE		
<p>The Group breaches any of the legislation that forms the regulatory framework within which the Group operates.</p> <p>RISK TOLERANCE: ZERO</p> <p>The Board has a zero-tolerance approach and is committed to promoting full health and safety compliance.</p> <p>EXECUTIVE RESPONSIBILITY: All Executive Directors</p> <p>IMPACT: The Group's cost base could increase and management time could be diverted. This could lead to damage to our reputation and/or loss of our licence to operate.</p> <p>STRATEGIC OBJECTIVES:</p> <p>1 2 3 4 5</p> <p>STAKEHOLDERS: Could potentially impact on all our stakeholders</p> <p>TREND: ▲</p> <p>The international response to the conflict in Ukraine has resulted in significant, and rapidly expanding, sanction lists which have resulted in additional compliance risks. In addition, with increased ESG-related reporting, the risk of reputational and/or litigation has risen if disclosures are misleading, or we are non-compliant. Deloitte provide 'reasonable assurance' on a significant amount of our ESG-related data disclosures.</p>	<ul style="list-style-type: none"> We are proactive in adopting new and emerging legislation. The Board and Risk Committee receive regular reports prepared by the Group's legal advisers identifying upcoming legislative/regulatory changes. External advice is taken on any new legislation, if required. Managing our properties to ensure they are compliant with the Minimum Energy Efficiency Standards (MEES) for Energy Performance Certificates (EPCs). A Group whistleblowing system for staff is maintained to report wrongdoing anonymously (see page 139). Ongoing staff training and awareness programmes. As part of staff performance appraisals, all employees are required to confirm they have reviewed and understood Group policies. Group policies and procedures dealing with all key legislation are available on the Group's intranet. Quarterly review of our anti-bribery and corruption procedures by the Risk Committee. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total shareholder return A significant diversion of time could affect a wider range of KPIs <p>In addition, we consider compliance training completion rates and feedback received from employee and occupier 'pulse surveys'.</p>	<p>2022</p> <ul style="list-style-type: none"> Our registrars monitored our share register and we commissioned an independent analysis of our nominee accounts to ensure we are compliant with sanctions imposed in response to the conflict in Ukraine. Sought legal guidance regarding our 'know your client' procedures to ensure our full compliance with sanction lists and money laundering regulation. Reviewed the Government's response to the BEIS consultation on corporate governance and audit reform to ensure we are prepared for the new requirements when they become applicable to Derwent London. Continued to implement a compliance training programme, mandatory for all employees including the Board (see page 171). <p>2023</p> <ul style="list-style-type: none"> Review the revised UK Corporate Governance Code, when published, to determine any required actions to ensure our continued compliance. Rebrand our Whistleblowing Policy and procedures as 'Speak-Up'. Continue with our current controls and mitigating actions.



Members of the Building Management, Health and Safety and Facilities teams at The Featherstone Building-EC1, which completed in 2022

MANAGING RISKS continued

OUR EMERGING RISKS

An emerging risk is a condition, situation or trend that could significantly impact the Group's financial strength, competitive position or reputation within the next five years. Emerging risks could involve a high degree of uncertainty. During the year under review, the Directors identified four additional emerging risks. The methodology used to review and identify emerging risks is on page 175.

STRATEGIC

Risk	Impact	Our actions
A. NATURE OF OFFICE OCCUPATION		
Occupiers are increasingly demanding of their space, requiring it to fulfil multiple functions. Offices need to be design-led and amenity-rich, and able to adapt to a more agile workforce. Office space which has fewer desks, more collaboration space, meeting rooms, video conference facilities and other amenities is likely to be more desirable to occupiers.	The Group needs to ensure it is adequately responding to occupier demands, so our product remains attractive to occupiers, thereby retaining its competitive edge. Buildings that are unable to meet these objectives may suffer in value unless they can be redeveloped or repurposed.	Close engagement with our occupiers and the wider market ensures we are aware of changing trends and respond appropriately. We believe our approach of delivering space with enhanced amenity, 'Intelligent Building' infrastructure, and employee wellbeing at its core will exceed these evolving requirements. We will continue to review opportunities within the portfolio to enhance our amenity offering and to adapt to changing trends. Due to the success of DL/78 in Fitzrovia, we are incorporating a similar scheme at The Featherstone Building, DL/28.
TREND ➤	STRATEGIC OBJECTIVES 1 2 3 4 5	STAKEHOLDERS Occupiers and employees

FINANCIAL

Risk	Impact	Our actions
B. INFLATION NEW		
Inflation increased significantly during 2022 and peaked at c.11%. Although there are early indications that inflation may be falling, there is uncertainty as to whether inflation will remain a risk factor in the medium to long-term.	Our ability to secure fixed price construction contracts will be more challenging in the medium-term. In addition, inflation is likely to have an impact on the Group's overheads with rising costs putting pressure on wages and professional fees. The costs arising from the managed portfolio will increase – although the majority of these increases can be absorbed by the service charge.	In respect to construction, where possible, designs are diverted away from materials attracting higher price increases. Where possible, we will aim to fix most, if not all, of our construction costs to reduce our exposure to inflation. Historically, real estate companies have been able to take advantage of long-term rental growth opportunities arising from inflation, with their assets being a good hedge for investors.
TREND ⬆️	STRATEGIC OBJECTIVES 1 2 3 4 5	STAKEHOLDERS Could potentially impact on all our stakeholders

OPERATIONAL

Risk	Impact	Our actions
C. ADOPTION OF TECHNOLOGY		
With technology in the sector advancing at a rapid pace the Group needs to ensure it is embracing these changes sufficiently whilst making sure that the Group's strategy is driving which technology is adopted and not being driven by the technology itself.	A failure to adopt technology could lead to the Group becoming less efficient than its competitors, leading to a loss of competitive advantage. Buildings are increasingly becoming 'intelligent' and occupiers may begin to choose such buildings over those without the same technological amenities. If the Group fails to respond to occupier demands for technology, the Group's office spaces could become less desirable, leading to potential vacancies and loss of rental income.	We have a Digital Strategy which is being implemented by our dedicated, cross-functional and highly collaborative Digital, Innovation & Technology team. We critically analyse new technology to ensure that maximum value can be derived from any new system or service that we choose to add into our overall digital and technological framework. In particular, analysing the capability of the new system or service to support our Net Zero Carbon Pathway. Our Intelligent Building project has completed its 'Proof of Concept' phase and roll out of Phase 1 has commenced.
TREND ➤	STRATEGIC OBJECTIVES 1 2 3 4 5	STAKEHOLDERS Could potentially impact on all our stakeholders






STRATEGIC OBJECTIVES

- 1 To optimise returns and create value from a balanced portfolio
- 2 To grow recurring earnings and cash flow
- 3 To attract, retain and develop talented employees

- 4 To design, deliver and operate our buildings responsibly
- 5 To maintain strong and flexible financing

TREND

- ⬆️ Increased
- Unchanged
- ⬇️ Decreased

Risk	Impact	Our actions
D. ENERGY PERFORMANCE CERTIFICATE (EPC) COMPLIANCE NEW		
The government has proposed increasing the minimum EPC rating to B by 2030. An increase in the minimum EPC rating will lead to increased capital expenditure requirements for the Group.	In order to improve its older buildings, the Group may need to commit to additional capital expenditure. In 2021, a third party report identified £97m of works. Based on our latest estimates, which reflect cost inflation, this has increased to £99m some of which may be recoverable through the service charge (see page 14). The Group may also be unable to lease the space during the improvement phase, leading to reduced rental income and longer void periods.	In accordance with our Net Zero Carbon Pathway, new developments and major refurbishments will achieve the required EPC ratings and will be operated using renewable energy and have appropriate energy reduction targets in place. Our ongoing refurbishment programme is monitored by the Directors and ensures that we continually improve the energy efficiency of our buildings. At 31 December 2022, our current portfolio is fully compliant with EPC regulations for 2023 (see page 14).
TREND 	STRATEGIC OBJECTIVES 1 2 3 4 5	STAKEHOLDERS Could potentially impact on all our stakeholders
E. RENEWABLE ENERGY PROVISION AND RELATED RISKS NEW		
Renewable energy is a key element of our Net Zero Carbon Pathway. Whilst we are purchasing green tariffs, greater emphasis is being placed on fully traceable 'direct from the source' supplies which are difficult to secure. In addition, the supply of high quality offsets is becoming constrained and leading to price escalation.	There is a limited supply of renewable energy sources and offset projects which are leading to price escalation. Although capacity is increasing, it is being absorbed by the industry as quickly as it is being produced. Purchasing offsets from the open market will cost more for the Group than in previous instances. The current cost implications for our development pipeline is relatively small at c.1% of project cost.	We are driving down energy demand in our buildings via our challenging energy reduction targets. In addition to purchasing renewable energy and green tariff supplies, wherever possible, we are researching opportunities to increase our own supply base of renewable energy. During 2022, we received resolution to grant planning permission for a c.100-acre solar park on our Scottish land. Our tree planting efforts will reduce reliance on market-based offsets but it will be c.2029/2030 before we can start to use them.
TREND 	STRATEGIC OBJECTIVES 1 2 3 4 5	STAKEHOLDERS Could potentially impact on all our stakeholders
F. PLANNING PERMISSION RISKS		
There are concerns that planning in London may become more challenging. Relevant factors include local authorities requiring a high level of justification for demolition instead of refurbishment, the length of time from application to approval, the need for more affordable housing and/or offices, coupled with the need for the inclusion of a social value requirement.	The rising cost and challenge of obtaining planning permission could have an impact on the Group's ability to realise its development ambitions and could result in increased capital expenditure during the early stages of development planning, resulting in lower development returns.	We liaise with each London authority to understand their needs with the aim of building a partnership and providing value to local communities – for example via our Community Fund, community initiatives and local employment opportunities etc.
TREND 	STRATEGIC OBJECTIVES 1 2 3 4 5	STAKEHOLDERS Occupiers and suppliers
G. THE IMPORTANCE OF ESG-RELATED CONCERNS TO OUR KEY STAKEHOLDERS		
Environmental, social and governance concerns (including, climate change and diversity and inclusion) are important to Derwent London, our stakeholders and the general public.	If we do not give sufficient priority to these issues, and fail to act as a responsible corporate entity, we will be unprepared for the risks and opportunities arising and it will, in turn, adversely impact on our business and reputation.	We recognise the importance of clear communication and proactive engagement with all of our stakeholders.
TREND 	STRATEGIC OBJECTIVES 1 2 3 4 5	STAKEHOLDERS Could potentially affect all of our key stakeholders
H. SHORTAGE OF ELECTRICAL POWER NEW		
Shortage of electrical power is a risk for London, particularly in West London. UKPN are the provider in central London and cover all Derwent London properties and have put in place robust plans to meet future load requirements.	Shortage of electrical power could lead to power cuts and cost pressures. UKPN consider power cuts as being possible but unlikely and will be driven by a combined impact of very cold weather and a reduction in power generated from wind farms due to lack of wind.	Early engagement for schemes with UKPN is the key to risk mitigation for the provision of power. Derwent London engage with UKPN on a regular basis at a monthly meeting and we have a dedicated UKPN account manager.
TREND 	STRATEGIC OBJECTIVES 1 2 3 4 5	STAKEHOLDERS Could potentially impact on all our stakeholders



Soho Place W1



Reception



Theatre

“Soho Place is the construction of a Swiss watch built on an urban scale, intertwined with and sitting over an iceberg of new Crossrail infrastructure. The major component is the new ten-storey travertine and metal urban palazzo of office and retail above Tottenham Court Road Underground station. This fronts onto the new Soho Place, Soho’s first new address for 72 years, and opposite London’s first new theatre for 50 years.”

SIMON ALLFORD
Executive Director, AHMM

GOVERNANCE

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INTRODUCTION FROM THE CHAIRMAN



2023 FOCUS AREAS

- Ongoing review of the Group's strategy and five-year plan
- Implement findings from the recent externally facilitated Board performance evaluation
- Continue to monitor the Group's long-term succession and talent development pipeline
- During Q3 2023, begin the recruitment process for a new Non-Executive Director

UK Corporate Governance Code – Compliance statement 2022

The Board confirms that for the year ended 31 December 2022, the principles of good corporate governance contained in the 2018 UK Corporate Governance Code (the Code) have been consistently applied.

The FRC is currently reviewing the Code and is likely to publish a revised version. We will monitor the changes being proposed to the Code and ensure our compliance.

Further information on the Code can be found on the Financial Reporting Council's website: www.frc.org.uk

Dear Shareholder,

On behalf of the Board, I am pleased to introduce the Group's Corporate Governance statement on pages 138 to 151.

The Board's activities

2022 has been an active and progressive year for the Group (see pages 150 to 151). The Board's 2022 strategy awayday was extended over two days and was held in Scotland. This enabled the Directors to have a tour of the Scottish assets and to see first-hand how they were supporting the business to achieve its net zero carbon ambitions. Following the awayday, the Board agreed to review the Company's purpose.

The 2022 evaluation of the Board, its committees and individual Directors was externally facilitated by Manchester Square Partners LLP. We were pleased to receive external confirmation that our Board and committees continue to operate effectively with only minor focus areas identified for 2023 (further information on the process and outcome is on page 149).

Shareholder engagement

Feedback from our key stakeholders is important and informs the Board's decision making and strategy discussions. Following positive stakeholder feedback on DL/78 in Fitzrovia, the Board approved a similar shared amenity hub at The Featherstone Building (DL/28).

During the year, the Remuneration Committee engaged with our top 20 shareholders on refinements to the Remuneration Policy. The Committee, and the Board, are thankful to the shareholders who engaged with us.

On page 168, Lucinda Bell, Audit Committee Chair, has extended an invitation to our shareholders to engage on the external audit tender which will commence in Q2 2023.

Board changes

As Richard Dakin (Non-Executive Director) steps down from the Board on 28 February 2023, the Board will ensure a smooth transition of responsibility to Helen Gordon as Risk Committee Chair.

The Nominations Committee continues to monitor the tenure of Non-Executive Directors to effectively manage succession planning. Claudia Arney will approach the end of her ninth year on the Board in Q1 2024 and will be succeeded by Sanjeev Sharma as Remuneration Committee Chair. During Q3 2023, we will seek to recruit a new Non-Executive Director (see page 154).

The Annual General Meeting (AGM)

The forthcoming AGM will be hosted at DL/78 on 12 May 2023. In accordance with the Code, all Directors (except Richard Dakin) will be putting themselves forward for re-election at the AGM. Following the external performance evaluation, I can confirm that each Director's performance continues to be highly effective and demonstrates a high level of commitment to their roles.

Alongside my fellow Directors, I hope that you will be able to join us. If you wish to discuss any aspect of our governance arrangements, please contact me via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or
Email: company.secretary@derwentlondon.com

MARK BREUER
Chairman

27 February 2023

GOVERNANCE AT A GLANCE

Transparency and accountability underpins effective corporate governance and builds stakeholder confidence in our business integrity.

94%

employee engagement with 'pulse survey'

45.5%

female representation on our Board

60%

Board independence (excluding the Chairman)

+2.6%

increase to the dividend in 2022

UK Corporate Governance Code 2018

- Fully compliant during 2022

Key governance activities

The Board's key governance activities during the year have included:

- A comprehensive review of the Remuneration Policy which included consulting with shareholders representing c.64% of our issued share capital on our proposed amendments
- Reviewed the Group's talent pipeline and Non-Executive Director succession plans
- Monitored the Group's performance towards net zero carbon (see page 56)
- Conducted employee and occupier 'pulse surveys' (see pages 59 and 92)
- Committed to becoming a member of the Business Disability Forum (see page 186)
- Reviewed the Group's vision, purpose and values (see page 140)

Major Board decisions

The major Board decisions made in 2022 included:

- Exchanged a conditional contract to acquire the freehold of Old Street Quarter, EC1
- Acquisition of 230 Blackfriars Road, £55m before costs
- Disposal of New River Yard EC1, £67.5m before costs
- Disposal of Bush House WC2, £85m before costs
- Sale of Charterhouse Street EC1, £54m before costs
- Approved a new shared amenity hub at The Featherstone Building (DL/28)

➤ OUR COMPLIANCE STATEMENT / See page 128

➤ KEY ACTIVITIES OF THE BOARD / See pages 150 to 151

OVERVIEW OF UK CORPORATE GOVERNANCE CODE 2018

During the year under review, we have applied the principles and complied with the provisions of good corporate governance contained in the UK Corporate Governance Code 2018 (the Code).

1. Board leadership and Company purpose

We have a diverse and effective Board which leads the Group to achieve our purpose and safeguard our strong stakeholder focused culture.

Effective Board	Page 138
Value creation and preservation	Page 138
Workforce policies and practices	Page 139
Governance framework	Page 141
Purpose, values and culture	Page 140
Stakeholder engagement	Pages 142 to 143
Key activities of the Board in 2022	Pages 150 to 151

2. Division of responsibilities

Our Board is comprised of 60% independent Directors. We monitor the external commitments and conflicts of interest which could impact on our Directors' independence and effectiveness.

Board roles	Page 145
Independence	Page 146
Conflicts of interest	Page 146
Other external appointments	Page 146

3. Composition, succession and evaluation

The composition of the Board and its succession plans are kept under regular review by the Nominations Committee. We have an ongoing training programme and follow a three-year cycle of internal and external Board evaluations.

Board skills, experience and knowledge	Page 147
Training	Page 148
Board evaluation	Page 149
Board and committee composition	Page 153
Succession planning	Page 154
Board diversity	Page 155

4. Audit, risk and internal control

We have a low tolerance for risk taking and a conservative management style, which is supported by a framework of internal controls and risk management policies which are routinely subject to independent assurance.

Financial reporting	Page 157
Significant financial judgements	Page 159
Internal financial controls	Pages 160 to 161
Assurance over external reporting	Pages 162 to 164
Internal and external audit	Pages 165 to 167
External audit tender	Pages 168 to 169
Risk management	Pages 171, 174 to 176
Business continuity and disaster recovery	Page 178
Cyber security	Pages 180 to 181

5. Remuneration

We are transparent about our pay practices which aim to incentivise our employees to achieve our strategy and generate sustainable value for our stakeholders.

Executive Director policy table	Pages 194 to 196
Alignment with strategy and performance	Page 205
Shareholder voting and engagement	Pages 198 and 204
Remuneration decisions in context	Pages 207 to 209
Executive Directors' remuneration in 2022	Pages 213 to 221

OUR STAKEHOLDERS

Proactive and positive stakeholder engagement secures our long-term success.

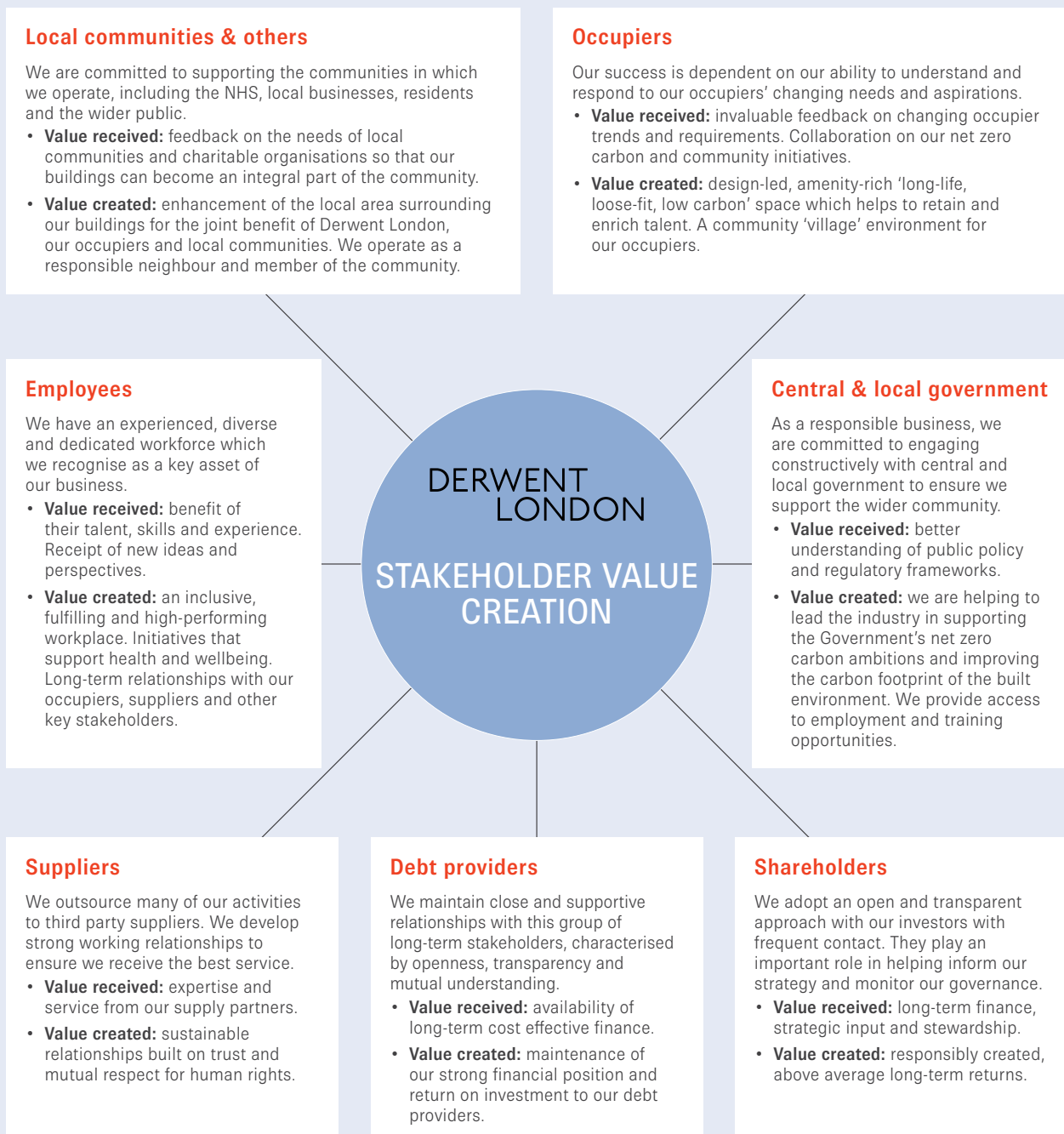
We recognise that we have a responsibility to all our stakeholders. Through effective engagement we are able to build strong and sustainable relationships. The table below illustrates the value provided to Derwent London by our stakeholders and the value we create in return.

By having an in-depth knowledge of our stakeholders, their concerns and priorities, we are able to work closely alongside them to achieve our mutual goals, create value and, wherever possible, provide proactive support.

Our section 172(1) statement for the year ended 31 December 2022 is on pages 131 to 133 and demonstrates how our stakeholders influenced some of the decisions taken by the Board in 2022.

STAKEHOLDER VALUE CREATION

Derwent London is committed to delivering long-term responsible value to all key stakeholders.



THE SECTION 172(1) STATEMENT

The Board of Directors confirm that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Issues, factors and stakeholders

The Board has direct engagement principally with our employees and shareholders but is also kept fully informed of the material issues of other stakeholders through the Responsible Business Committee, Executive Directors, reports from senior management and external advisers.

On pages 8, 9 and 132 we outline the ways in which we have engaged with key stakeholders.

s.172 factor	Relevant disclosures
a) the likely consequences of any decision in the long-term	Company purpose (page 1) Central London office market (page 32) Our business model (page 36) Our strategy (page 38)
b) the interests of the Company's employees	Our people (page 59) Diversity and inclusion (page 60 and 186) Non-financial reporting (page 67) Employee engagement (page 144)
c) the need to foster the Company's business relationships with suppliers, customers and others	Occupier-focused solutions (page 24) Social value strategy (page 17) Responsible payment practices (page 185) Modern slavery (page 185) Supply Chain Responsibility Standard (page 185)
d) the impact of the Company's operations on the community and the environment	Environmental (page 52) Net zero carbon (page 27) SECR and TCFD disclosures (pages 69 to 85) Community Fund (page 57)
e) the desirability of the Company maintaining a reputation for high standards of business conduct	Derwent London brand (page 114) Purpose, values and culture (page 140) Whistleblowing (page 139) Internal financial controls (page 160) Risk management (page 171) Anti-bribery and corruption (page 177) Awards and recognition (see inside back cover)
f) the need to act fairly between members of the Company	Shareholder engagement (page 143) Annual General Meeting (page 226) Remuneration Policy (page 194) Rights attached to shares (page 227) Voting rights (page 226)

Methods used by the Board

The main methods used by the Directors to perform their duties include:

- strategy reviews which assess the long-term sustainable success of the Group and our impact on key stakeholders;
- the Responsible Business Committee monitors the Group's corporate responsibility, sustainability and stakeholder engagement activities and reports to the Board on its activities (see pages 182 to 189);
- assessing the potential impact of significant capital expenditure decisions on our stakeholders;
- identifying the risk management procedures for the potential consequences of decisions in the short-, medium- and long-term so that mitigation plans can be put in place;
- direct and indirect stakeholder engagement (see pages 8 to 9 and 142 to 144);
- external assurance is received from stakeholder surveys, brokers and advisers; and
- specific training for our Directors and senior managers, in addition to the mandatory compliance training programme (see page 148).

In addition to the main methods listed above, during the year under review the Board also:

- held a strategy review meeting to ensure our strategy remains fit for purpose (see page 138);
- consulted with shareholders on the proposed refinements to the Remuneration Policy (see page 198);
- completed an external Board performance evaluation aligned with the three-year cycle (see page 149);
- reviewed the Group's vision, purpose and values with support from an external consultant (see page 140); and
- conducted both employee and occupier 'pulse surveys' (see pages 61 and 94).

Public Interest Statement – 2022

As a business that designs and manages office space, we are aware of our wider obligations to be a responsible business partner to our occupiers and to the communities in which we operate. As our activities impact on multiple stakeholder groups (see page 142), our Board ensures that stakeholder matters are central to its decision making alongside the long-term financial success of our business. We extend our obligations beyond the statutory requirements to add value and build long-term mutually beneficial relationships. Our obligations are incorporated into our purpose, which strongly influences our values (see page 1). We have detailed on pages 7 to 9, 24, 27, 50 to 85 and 132 to 133 how we have acted in the public interest during 2022.

THE SECTION 172(1) STATEMENT continued

Key to strategic objectives



TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO



TO GROW RECURRING EARNINGS AND CASH FLOW



TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES



TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY



TO MAINTAIN STRONG AND FLEXIBLE FINANCING

The impact of stakeholder engagement on Board decision making

We utilise various engagement channels to receive informative feedback from our key stakeholders which can be factored into our principal decisions and activities.

The key activities and principal decisions undertaken by the Board in 2022 are detailed on pages 150 to 151. For further information see:

➤ OUR PEOPLE / [See page 59](#)

➤ EMPLOYEE ENGAGEMENT / [See page 144](#)

➤ SHAREHOLDER ENGAGEMENT / [See page 143](#)

➤ OCCUPIER ENGAGEMENT / [See page 142](#)

➤ WIDER WORKFORCE REMUNERATION CONSIDERATIONS / [See page 207](#)

Stakeholder

Engagement methods

Occupiers

Strategic objectives:



- Regular communication via our Asset and Property Management teams
- Dedicated Customer Engagement & Communications Managers
- Occupier-focused amenity (for example, DL/78) and events
- Interaction and use of the DL/App
- Constructive and collaborative discussions on sustainability initiatives and achieving net zero carbon
- Occupier 'pulse surveys'

Employees

Strategic objectives:



- Employee surveys and Employee Working Groups
- Employee awaydays and town hall meetings
- Health and wellbeing programmes
- Independent whistleblowing system
- A dedicated Non-Executive Director for gathering the views of the workforce
- Employee members of the Responsible Business Committee
- Intranet for sharing news and achievements

Local communities & others

Strategic objectives:



- Operation of our Community Fund
- Volunteering and charitable donations
- Provided employment and work experience opportunities
- Engagement throughout the planning and development process
- Engaged with Non-Governmental Organisations (NGOs), Business Improvement Districts and industry bodies

Suppliers

Strategic objectives:



- Regular correspondence and update meetings
- Our Supply Chain Responsibility Standard and the request for evidence of compliance
- Signatories to the CICM Prompt Payment Code
- Publication of our latest Modern Slavery Statement

Central & local government

Strategic objectives:



- Derwent London is a member of London Borough of Islington's Living Wage Action Group
- Maintain proactive relationships through regular dialogue and correspondence with government departments such as HMRC
- Ongoing engagement with local authorities to ensure high quality planning applications are submitted

Shareholders & debt providers

Strategic objectives:



- Annual General Meeting (AGM)
- Annual Bondholders Meeting
- Investor meetings, presentations and property tours
- Attendance of property conferences
- Shareholder consultations
- Regular announcements via RNS
- Our annual Report & Accounts

Engagement we received	Our response
<p>Since opening in 2021, our occupiers have provided valuable feedback on DL/78 in Fitzrovia, in respect to the range of amenities available.</p> <p>Our Property Management team are in regular contact with our occupiers. Through discussions we were aware that rising utility costs was of concern for many of our occupiers.</p>	<p>In response to the feedback, the Board approved the creation of a similar shared amenity hub at The Featherstone Building (DL/28) which has been designed to reflect feedback from occupiers.</p> <p>We assured our occupiers that we place our energy contracts via an independent energy consultant, to provide market competitive benchmarking. Due to the energy pricing crisis, we have undertaken a separate third party review of contract pricing to ensure that the prices offered are in line with the wider market conditions. We have provided a breakdown of utility pricing to our occupiers who have been affected by recent contract renewals and are separately highlighting the utility charges within our managed portfolio service charge budgets to ensure transparency.</p>
<p>The Board and Executive Committee were made aware through various employee engagement channels that employees were concerned by the 'cost of living crisis' in particular rising inflation, interest rates and utility costs.</p> <p>There has been continuous improvement towards diversity and inclusion (D&I) across the Company, however, the response from the latest Employee Survey showed that we can always strive to further increase the positive impact of D&I across the business.</p>	<p>We provided additional financial help to employees for whom the economic burden is most challenging, for further information see page 208. In addition, a 'Financial Wellness' seminar was organised for all employees which provided practical tips on budgeting, debt, protection and savings.</p> <p>To further promote D&I across the business, Derwent introduced a reverse mentoring initiative under the 10,000 Black Interns programme, involving the senior leadership and Executive team. This was an initiative that provided the chance to listen and learn from the lived experiences of young black students. Following the disability awareness training modules, the D&I Working Group made recommendations to Directors on initiatives the business could consider.</p>
<p>The Development team conduct a significant amount of consultations as part of our development projects. For the 50 Baker Street development (a Joint Venture with Lazari Investment), we engaged with local community groups, including the Baker Street Quarter Partnership (BSQ), who are currently based in one of the buildings on the site. Through this engagement we were advised that the local area would benefit greatly from a community space/hub.</p>	<p>Following receipt of this feedback, the Directors of the Joint Venture decided to convert one of our proposed retail spaces on Broadstone Place to a new community facility, which will be operated by BSQ for a peppercorn rent.</p> <p>The new facility will provide a space for local exhibitions, pop-ups for local entrepreneurs and fledgling businesses and wellbeing activities. We are working alongside the BSQ to plan the space and are excited about the prospects of delivering a vibrant community facility within our development.</p>
<p>As part of our Net Zero Carbon Pathway, we seek to ensure we are designing buildings, and using efficient build methodology, to achieve our targets. For our Network W1 development, we appointed Kier to assist with this process with the aim of bringing our upfront carbon (A1-A5) below 600 kgCO₂e/m².</p>	<p>During design meetings on Network W1, Kier provided practical suggestions on how we could rationalise our design to improve carbon efficiency. In addition, through supply chain engagement, feedback was received on materials and methodology, for example cement replacement opportunities and use of reused and recycled raised-access floor tiles. By acting on these suggestions, we have been able to agree a design which can achieve our carbon targets.</p>
<p>Paul Williams (CEO) is currently Chairman of the Westminster Property Association (WPA), a not-for-profit advocacy group, which focuses on policy, research and maintaining excellent relationships with Central London's local authorities. As outlined in our ESG disclosures, tackling climate change remains a serious challenge and requires coordinated action by all key stakeholders.</p>	<p>In 2022, WPA and Westminster City Council jointly launched London's first Sustainable City Charter, which provides a new framework for decarbonising the building environment.</p> <p>Paul Williams sits on the Terra Carta Sustainable Markets Initiative as its only real estate representative and attended two events by invitation of HRH King Charles at Buckingham Palace. The aim of the initiative is to put nature, people and the planet at the heart of global value creation. In addition, as members of the British Property Federation (BPF) and various industry panels, including the Green Council and Better Building Partnership, we have engaged with best practice guidance.</p>
<p>The Remuneration Committee consulted with shareholders representing c.64% of our issued share capital on its proposed new Remuneration Policy.</p> <p>Attendance at a debt provider forum generated capital structure feedback from investors.</p> <p>From shareholder meetings, we were advised that they would appreciate more frequent updates on our portfolio's Energy Performance Certificate (EPC) ratings and our progress to achieving the 2023 and (proposed) 2030 regulatory requirements.</p>	<p>During consultation, a shareholder requested clarity on the impact of purchasing carbon offsets on the new PSP performance metrics. We confirmed that there would be no impact and ensured this was clear in our disclosures (see page 212).</p> <p>It was valuable to the Board to receive feedback from debt investors on their preferences which can inform the Board's future financing initiatives.</p> <p>We have introduced additional EPC-related disclosures into our interim, quarterly results announcements and results presentations.</p>

BOARD OF DIRECTORS



MARK BREUER Age 60
Chairman

Appointed to the Board: 2021

Mark worked in investment banking for 30 years and, in 2017, retired from a 20-year career at JP Morgan in London, where he held the position of Vice Chairman Global M&A and was a member of the Global Strategic Advisory Council. Mark is a Fellow of the Institute of Chartered Accountants of England and Wales, having qualified in 1987, and has a BA from Vassar College in the US.

Other public appointments:

Chairman of DCC plc.

Committee:

Nominations (Chair).



PAUL WILLIAMS Age 62
Chief Executive

Appointed to the Board: 1998

Paul is a chartered surveyor who joined the Group in 1987. He was appointed Chief Executive in 2019. He has overall responsibility for Group strategy, business development, sustainability, health & safety and day-to-day operations.

Other public appointments:

Director of Sadler's Wells Foundation, Chair of the Westminster Property Association and Board member of the New West End Company (NWECC).

Committee:

Responsible Business.



HELEN GORDON Age 63
Senior Independent Director

Appointed to the Board: 2018

Helen is a chartered surveyor and is Chief Executive Officer of Grainger plc. Previously, she was Global Head of Real Estate Asset Management of Royal Bank of Scotland plc and has held senior property positions at Legal & General Investment Management, Railtrack and John Laing Developments.

Other public appointments:

CEO of Grainger plc, Board member and Past President of the British Property Federation and Vice Chair and Board Member of EPRA, Non-Executive Director of Business LDN.

Committees:

Nominations, Remuneration, Risk.



DAMIAN WISNIEWSKI Age 61
Chief Financial Officer

Appointed to the Board: 2010

A chartered accountant who held previous senior roles within the real estate sector, Damian has overall responsibility for financial strategy, treasury, taxation and financial reporting as well as other operational responsibilities.

Other public appointments:

Trustee and member of the governing body at the Royal Academy of Music and Non-Executive Director at the ABRSM.



NIGEL GEORGE Age 59
Executive Director

Appointed to the Board: 1998

Nigel is a chartered surveyor who joined the Group in 1998. He is responsible for leading Derwent's investment acquisitions, disposals and analysis. In addition, his responsibilities include overseeing the Group's property development and sustainability teams.

Other public appointments:

Director of the Chancery Lane Association Limited.



EMILY PRIDEAUX Age 43
Executive Director

Appointed to the Board: 2021

Emily has overall responsibility for overseeing Leasing and Asset Management transactions, building on our excellent customer service and relations, leading our marketing and digital strategy, whilst continuing to ensure that our future developments provide best in class workspace for the next generation of businesses. Emily is a chartered surveyor and was previously Director of Investment Management at CB Richard Ellis North America.

Other public appointments:

Director of The Paddington Partnership.



CLAUDIA ARNEY Age 52
Non-Executive Director

Appointed to the Board: 2015

Claudia was Group Managing Director of Emap until 2010. Prior to that she held senior roles at HM Treasury, Goldman Sachs and the Financial Times.

Other public appointments:

Chair of Deliveroo plc and Non-Executive Director of Kingfisher plc. Member of the Takeover Panel (Hearings Committee) and Lead Non-Executive Board member for the Department for Digital, Culture, Media & Sport.

Committees:

Remuneration (Chair), Audit, Nominations, Responsible Business.



LUCINDA BELL Age 58
Non-Executive Director

Appointed to the Board: 2019

Lucinda is a chartered accountant and from 2011 to 2018 was CFO of The British Land Company plc ('British Land'). Prior to that, she held a range of finance and tax roles at British Land.

Other public appointments:

Non-Executive Director at Man Group Plc, and Non-Executive Director of Crest Nicholson Holdings plc.

Committees:

Audit (Chair), Nominations, Remuneration, Risk.



RICHARD DAKIN Age 59
Non-Executive Director

Appointed to the Board: 2013

Richard is the Managing Director of Capital Advisors Limited, CBRE, since 2014. Previously, he had been employed at Lloyds Bank since 1982 where he gained an extensive knowledge of property finance and the real estate sector. He is a Fellow of the Royal Institution of Chartered Surveyors.

Committees:

Risk (Chair), Audit, Nominations.



SANJEEV SHARMA Age 58
Non-Executive Director

Appointed to the Board: 2021

Sanjeev is an independent member of the Estates Strategy Committee of King's College University London.

Other public appointments:

Chief Property Portfolio Officer at M&G Real Estate – a leading financial solutions provider for global real estate investors, which is part of M&G plc's £67.2bn Private & Alternative Assets division.

Committees:

Audit, Nominations, Remuneration, Risk.



DAME CILLA SNOWBALL Age 64
Non-Executive Director

Appointed to the Board: 2015

Cilla is the former Group Chairman and Group CEO at AMV BBDO, one of the top advertising agencies in the UK.

Other public appointments:

Governor of the Wellcome Trust, Director of Genome Research Limited and Non-Executive Director of Whitbread PLC.

Committees:

Responsible Business (Chair), Nominations, Risk.



DAVID LAWLER¹
Company Secretary

Joined Derwent London:
 September 2017

Appointed to the Executive Committee:
 September 2017

¹ Member of the Executive team.

EXECUTIVE MANAGEMENT TEAM



VASILIKI ARVANITI

Head of Asset Management

Joined Derwent London:

September 2019

Appointed to Executive Committee:

January 2022



RICHARD BALDWIN

Director of Development

Joined Derwent London:

January 2011

Appointed to Executive Committee:

January 2011



JOHN DAVIES

Head of Sustainability

Joined Derwent London:

January 2013

Appointed to Executive Committee:

January 2022



PHILIPPA DAVIES

Head of Leasing

Joined Derwent London:

April 2013

Appointed to Executive Committee:

July 2022



ROBERT DUNCAN

Head of Investor Relations
& Strategic Planning

Joined Derwent London:

September 2021

Appointed to Executive Committee:

January 2023



JAY JOSHI

Group Financial Controller

Joined Derwent London:

April 2012

Appointed to Executive Committee:

April 2021



KATY LEVINE

Head of Human Resources

Joined Derwent London:

September 2008

Appointed to Executive Committee:

January 2023



VICTORIA STEVENTON

Head of Property Management

Joined Derwent London:

December 2019

Appointed to Executive Committee:

January 2022



JENNIFER WHYBROW

Head of Financial Planning
& Analysis

Joined Derwent London:

June 2007

Appointed to Executive Committee:

January 2018

Senior Management

Joined Derwent London		
Lesley Bufton	Head of Property Marketing	October 2003
Matt Cook	Head of Digital Innovation & Technology	November 2015
Richard Dean	Director of Investment	January 2023
Tim Hyman	Group Architect	September 2008
Benjamin Lesser	Head of Design & Innovation	May 2010
Umar Loane	Head of Property Accounts	February 2013
Matt Massey	Head of Project Management	March 2014
Heethen Patel	Financial Controller	January 2008
Matt Peaty	Head of Health & Safety	November 2022
Giles Sheehan	Head of Investment	February 2007
Jonathan Theobald	Head of Investment Analytics	December 2012
David Westgate	Group Head of Tax	January 2008



CORPORATE GOVERNANCE STATEMENT

The Governance section has been organised to follow the structure (1 to 5) and principles (A to R) of the 2018 UK Corporate Governance Code (the Code) and illustrates how we have applied the Code principles and complied with the provisions. Further information on the Code and our compliance is on pages 128 and 129.

1. BOARD LEADERSHIP AND COMPANY PURPOSE

Effective Board

Our Board is composed of highly skilled professionals who bring a range of skills, perspectives and corporate experience to our boardroom.

To ensure sufficient time for discussion, the Board utilises its five principal committees to effectively manage its time (see page 141). At each Board meeting, the agenda ensures sufficient time for the committee chairs to report on the contents of discussions, any recommendations to the Board which require approval and the actions taken.

➤ BOARD BIOGRAPHIES / See pages 134 to 135

➤ BOARD SKILLS AND EXPERIENCE / See page 147

➤ BOARD TRAINING DURING 2022 / See page 148

The Board conducts a detailed annual review of our strategy (including our purpose and strategic objectives). This year, the strategy awayday was held in Scotland and was extended over two days. The Board received a tour of our Scottish assets and was able to gain a deeper understanding of its contribution to our sustainability initiatives. Some of the key aspects discussed by the Board during its strategy discussions included:

- changes to the London office market and investment market (see pages 32 to 35);
- nature of office occupation;
- our aspirations, culture and purpose;
- feedback received from our employees and other key stakeholders;
- climate change risk and opportunities;
- our development pipeline in respect to its replenishment and future potential; and
- review of the five-year plan including the potential impact of external risk factors on the business and our stakeholders, including inflation, interest rates and recession.

The Board required no significant changes to the Group's strategy which continues to assist in the achievement of our purpose and is aligned with our values.

➤ REASONS TO INVEST / See page 4

➤ OUR STRATEGY / See pages 38 to 44

➤ THE SECTION 172(1) STATEMENT / See pages 131 to 133

Value creation and preservation

In accordance with the Code, the role of the Board is to promote the long-term sustainable success of the Company, generate value for shareholders and contribute to wider society. The appropriateness of our business model is regularly reviewed by the Board at its strategy review meetings to ensure it remains capable of generating long-term sustainable value for our shareholders and other key stakeholders. As a business, we continue to create value responsibly through:

Sustainable initiatives

- Science-based targets for operational energy intensity reduction across our managed portfolio.
- Phased embodied carbon targets for office new build developments.
- We commissioned a costed third party EPC upgrade survey and the recommendations are now being implemented.
- Obtained resolution to grant planning permission for a c.100-acre, 18.4MW solar park on our Scottish land which is expected to generate >40% of the electricity needs of our managed London portfolio.

Conservative balance sheet

- At 31 December 2022, our EPRA loan-to-value ratio was 23.9% and our net interest cover ratio was 423% (inc. share of joint ventures).
- Limited near-term refinancing: weighted average debt maturity of 6.2 years. Next refinancing in October 2024.
- 100% of drawn debt fixed or hedged at 31 December 2022.
- £650m green debt facilities, comprising a £300m green revolving credit facility and £350m 1.875% green bond, issued in line with our Green Finance Framework.

In order for the business to continue to generate long-term sustainable value, the Board's actions during 2022 included:

- Continuing with our strategy of capital recycling through the selling of assets with a lower forward return profile and reinvesting proceeds into higher returning opportunities, such as developments.
- Based on the feedback received from stakeholders on DL/78 in Fitzrovia, the Board approved DL/28 an equivalent shared amenity hub in The Featherstone Building EC1.
- Monitored the phased roll out of the Intelligent Building Programme, which will help to deliver further cost and carbon efficiencies.

Governance arrangements

Corporate governance is essential to ensuring our business is run in the right way for the benefit of all of our stakeholders. Our governance arrangements support the development and delivery of strategy by:

- ensuring accountability and responsibility;
- facilitating the sharing of information to inform decisions;
- establishing engagement programmes with key stakeholders (see page 132);
- maintaining a sound system of risk oversight, management and an effective suite of internal controls (see pages 160 to 161 and 174 to 176);
- providing independent insight and knowledge from the Non-Executive Directors; and
- facilitating the development and monitoring of key performance indicators (see pages 45 to 49).

If any Director has concerns about the running of the Group or a proposed course of action, they are encouraged to express those concerns which are then minuted. No such concerns were raised during 2022.

The Board maintains a formal schedule of matters which are reserved solely for its approval. These matters include decisions relating to the Group's strategy, capital structure, financing, any major property acquisition or disposal, the risk appetite of the Group and the authorisation of capital expenditure above the delegated authority limits. The delegated authority limits are detailed below:

Board approval is required for:	Level of approval:
Major property acquisition or disposal	Valued above £40m
Major capital expenditure project	Projected costs above £20m
Material occupier lease or contract	Rental income greater than 7.5% of the Group's total rental income

Although the Board is formally required to authorise capital expenditure above this limit, the open nature of our organisation means that the Board is aware of all active projects within our portfolio.

We ensure that the information shared with our Board is of sufficient depth to facilitate debate and to fully understand the content without becoming unwieldy. We often invite the preparer of the report to attend meetings so the Board can question management directly. The agenda for upcoming meetings is set by the Board Chairman, or Committee Chair, with support from the Company Secretary.

All Directors have access to the services of the Company Secretary and any Director may instigate an agreed procedure whereby independent professional advice may be sought at the Company's expense. No such advice was sought by any Director during the year.

Workforce policies and practices

The Executive Directors, with assistance from members of the Executive Committee, review and approve all key policies and practices which could impact on our workforce or influence their behaviours to ensure they support the Group's purpose and reflect our values (see page 140).

Policies are published on the intranet and where relevant included in the employee handbook. Our employees are required to confirm their understanding of these policies upon recruitment and on an annual basis.

To ensure policies are embedded in our business practices, we hold presentations to staff which highlight the key messages and notify them of any changes. We operate a mandatory training programme which aims to reinforce key compliance messages in areas such as anti-bribery, modern slavery, conflicts of interest, etc.

➤ COMPLIANCE TRAINING / See page 171

All employees (including the Board) are required to notify the Company as soon as they become aware of a situation that could give rise to a conflict or potential conflict of interest. The register of potential conflicts of interest is regularly reviewed to ensure it remains up to date (see page 146).

Anonymous reporting of concerns

As a business, we seek to conduct ourselves with honesty and integrity and believe that it is our duty to take appropriate measures to identify and remedy any malpractice within or affecting the Company. Our employees embrace our high standards of conduct and are encouraged to speak out if they witness any wrongdoing which falls short of those standards.

All employees have access to a whistleblowing system. Our whistleblowing procedures are included within our employee handbook, on our Group intranet and staff noticeboards. Following receipt of a whistleblowing message we have procedures in place to ensure an independent and proportionate investigation.

The Board receives updates from the Company Secretary on the operation of the whistleblowing system. During the year under review, we did not receive any messages via our whistleblowing system (2021: no messages). Due to the 'open door' nature of our business, concerns are often raised directly with management, the CEO or the HR team.

CORPORATE GOVERNANCE STATEMENT continued

PURPOSE

Why we do what we do

Our purpose communicates the Group's strategic direction and intentions to our employees, occupiers and wider stakeholders. Due to its importance, it is regularly reviewed by the Board.

During the year under review, the Board continued its discussions on how best to streamline our purpose and provide greater clarity to stakeholders on what is important to Derwent London (our core values). With assistance from third party advisers, the Board agreed its vision, made refinements to the Group's purpose and condensed our values into three 'core values'. Our progress towards achieving our purpose during 2022 can be reviewed on the following pages:

- LONG-LIFE, LOW CARBON, INTELLIGENT BUILDINGS / See page 23
- DELIVERING ABOVE AVERAGE LONG-TERM RETURNS FOR ALL OUR STAKEHOLDERS / See pages 46 and 205

VALUES

The qualities we embody

Our values articulate the qualities we embody and our underlying approach to doing business. They are embedded in our operational practices through the policies approved by the Board and the direct oversight and involvement of the Executive Directors.

The Executive Directors have been delegated responsibility for ensuring that policies and behaviours set at Board level are effectively communicated and implemented across the business. If the Board is concerned or dissatisfied with any behaviours or actions, it seeks assurance that corrective action is being taken. No such action was required during 2022.

- A DYNAMIC AND INCLUSIVE TEAM / See page 28
- DESIGN-LED DEVELOPMENT / See page 23
- ESG HIGHLIGHTS / See page 7

CULTURE

How we work together

Our culture has developed from our values and is a key strength of our business. The benefits of a strong culture is seen in our employees' engagement scores, retention rate and levels of productivity. As the cultural tone of a business comes from the boardroom, safeguarding our culture is a key factor in the development of the Board's succession plans.

Embedding our culture

The Board reinforces our culture and values through its decisions, strategy and conduct. Culture and value 'fit' is a key consideration during our recruitment process, which is reinforced during our induction programme, monthly town halls run by the CEO, and is monitored through performance appraisals.

As part of the six-monthly performance review cycle, our employees reflect on whether they demonstrate the core 'competencies' outlined in the review. These competencies include the ability to build strong internal and external relationships, communicate clearly, build trust, and demonstrate creativity, initiative and teamwork. These discussions reinforce the behaviours we wish to foster within our workforce and link our culture to our reward mechanisms.

Our senior management team undertake training to ensure they are supporting their teams and encouraging the behaviours which align with our culture. During 2022, management training covered allyship and inclusion, recognising and supporting mental health concerns and unconscious bias.

Assessment and monitoring

The Board measures the culture of the Group via:

- Regularly meeting with management and inviting employees to present at Board and committee meetings.
- Receiving feedback via the four employee representatives that sit on our Responsible Business Committee.
- Assessing cultural indicators such as:
 - management's attitude to risk;
 - health and safety data;
 - compliance with the Group's policies and procedures; and
 - key performance indicators, including staff retention.
- Feedback from our wider stakeholders, including from occupier 'pulse surveys'.
- Promptness of payments to suppliers.
- Independent assurance is sought via the outsourced internal audit function and other advisers.

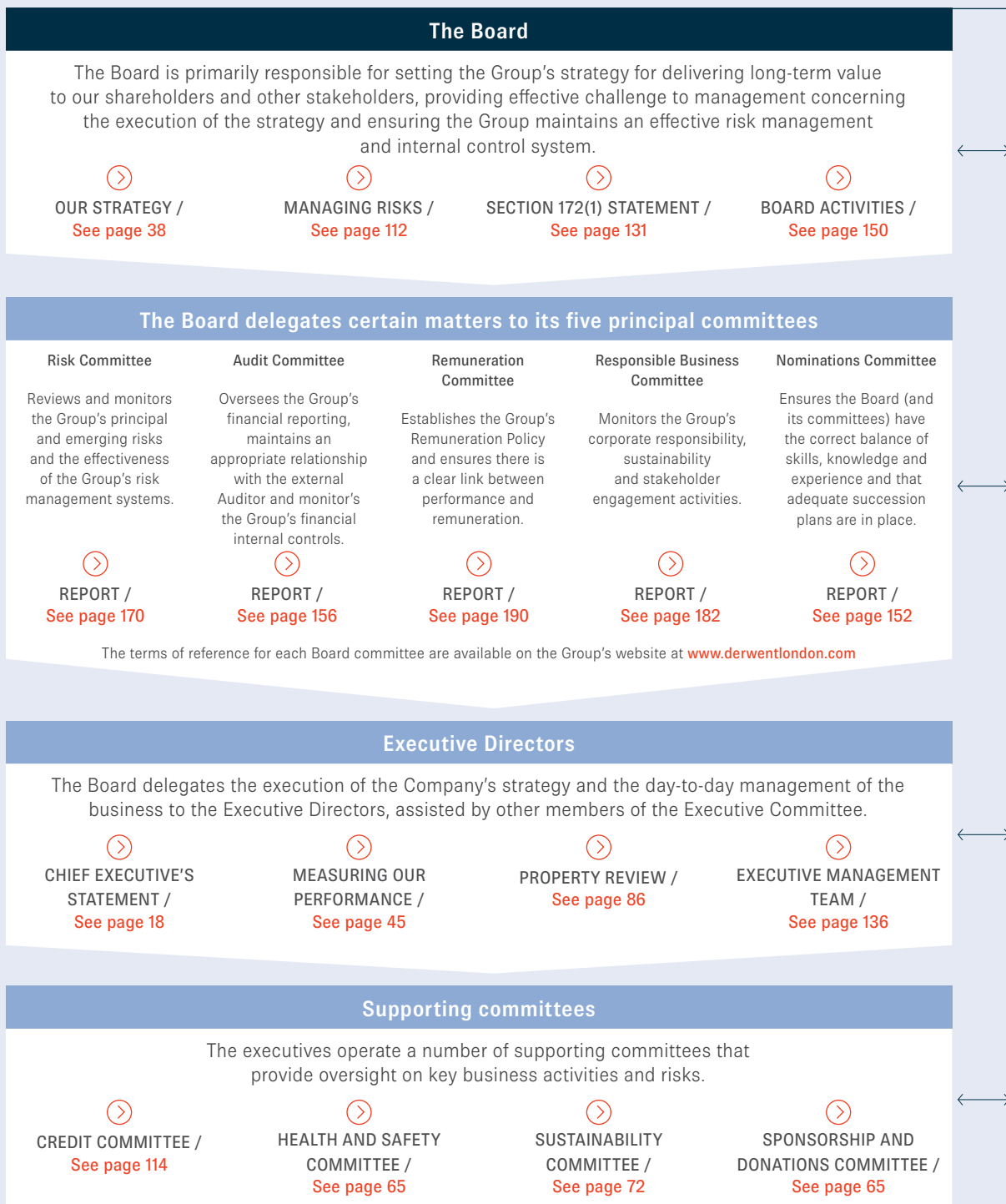
The feedback received from employee surveys provides valuable insights into what is valued and seen as corporate norms. The biennial Employee Survey includes a specific question on how our employees would describe our culture. These monitoring activities helped to inform the Board's discussions on our vision, purpose and values during 2022.

- ATTRACTING AND OPTIMISING TALENT / See page 59
- INVESTING IN TEAM COACHING / See page 61

GOVERNANCE FRAMEWORK

We pride ourselves on conducting our business in an open and transparent manner.

Our well-established culture ensures that our governance framework remains flexible, allowing for fast decision making, effective oversight and clear accountability throughout the organisation.



Our shareholders and other key stakeholders play an important role in monitoring and safeguarding the governance of our Group. Further information on how we engage with our shareholders (see page 143), employees (see page 144) and other key stakeholders are on pages 8 to 9.

CORPORATE GOVERNANCE STATEMENT continued

STAKEHOLDER ENGAGEMENT

We recognise the importance of clear communication and proactive engagement with all of our stakeholders. During the year under review, the Board utilised various engagement channels to receive valuable feedback from our key stakeholders (see page 132). Our stakeholder engagement programmes are kept under routine review by the Board.

We provide an explanation of how our stakeholders are impacted on the Board's discussions within our section 172(1) statement on pages 131 to 133.

The Board has appointed four employees to the Responsible Business Committee, who are fully involved in all aspects of the Committee's activities (see page 184). Having employees on a Board level committee enables our employees to have direct involvement in decision making and brings the voice of our employees directly to the boardroom.

Further information is available on the following pages:

- REMUNERATION POLICY / See page 198
- EMPLOYEE SURVEY / See page 59
- DL/28 (OLD STREET) / See page 24
- COMMITTEE EMPLOYEE MEMBERS / See page 184

Stakeholder impact analysis

The Board's procedures require a stakeholder impact analysis to be completed for all material decisions requiring its approval that could impact on one or more of our stakeholder groups. The stakeholder impact analysis assists the Directors in performing their duties under s.172 of the Companies Act 2006 and provides the Board with assurance that the potential impacts on our stakeholders are being carefully considered by management when developing plans for Board approval.

The stakeholder impact analysis identifies:

- potential benefits and areas of concern for each stakeholder group;
- the procedures and plans being implemented to mitigate against any areas of concern; and
- who is responsible for ensuring the mitigation plans are being effectively implemented.

How do we engage with our occupiers?

Our Asset Management and Property Management teams communicate with our occupiers with regular meetings and 'check-in' calls with key contacts. We communicate proactively, and keep our occupiers updated on matters that affect their space and employees. Through our 'villages', we aim to build long-term relationships with our occupiers and the creation of a collaborative atmosphere in our buildings.

Other key engagement channels are:

- **Occupier surveys:** Typically conducted face-to-face, at least annually, to facilitate open dialogue and allow for relationship building and transparent discussions.
- **Sustainability and Net Zero Carbon Pathway:** The importance of climate change, and the current energy pricing crisis, has led to constructive and collaborative discussions.
- **Amenity and events:** We schedule events (wellness talks, social events, online auctions, speakers etc.) as well as community initiatives for our occupiers and other stakeholders.
- **Technology:** Through the DL/App we can communicate and share benefits/offers with our occupiers. As we roll out our Intelligent Building Programme to more buildings across our portfolio, our tenants will hopefully benefit from cost and carbon savings and greater access to efficiency and usage data.
- **Customer Engagement & Communications Managers:** The role of these dedicated managers is to ensure a collaborative approach to all occupier communications and engagement to further develop our close relationships with occupiers.

- OCCUPIER-FOCUSED SOLUTIONS / See page 24

CALENDAR OF OUR MAIN SHAREHOLDER EVENTS IN 2022

JAN	FEB	MAR	APR	MAY	JUN
Property conference (London).	Published our 2021 Full Year Results. Investor roadshows in London.	Roadshows. Property conferences (Miami and London).	Notice of AGM is sent to shareholders.	Held our AGM. Property conferences (London and Amsterdam). Property tours.	Payment of the 2021 Final Dividend. Property tours.

How do we engage with our shareholders?

Shareholders play a valuable role in safeguarding the Group’s governance through, for example, the annual re-election of Directors, monitoring and rewarding their performance and engagement and constructive dialogue with the Board. The Group aims to be as transparent as possible with the information it provides to investors and welcomes face-to-face dialogue and engagement. Further information on how we assure the information we publicly disclose is on pages 162 to 164.

Our Chairman aims to routinely meet with institutional investors and report their views to the Board. On an annual basis, Mark Breuer writes to all our major shareholders inviting them to meet with him to discuss any areas of concern or provide feedback. For our private investors, there is an opportunity to meet the entire Board (including the Non-Executive Directors) at our Annual General Meeting (AGM).

If shareholders have any concerns, which the normal channels of communication to the CEO, CFO or Chairman have failed to resolve, or for which contact is inappropriate, then our Senior Independent Director, Helen Gordon, is available to address them. Helen Gordon can be contacted via the Company Secretary whose contact details are on page 315.

To engage with our shareholders, the Board utilises the following engagement methods:

- **Shareholder consultation:** We will always seek to engage with shareholders when considering material changes to either our Board, strategy or remuneration policies. In 2022, the Remuneration Committee consulted with 20 of our largest shareholders, representing approximately 64% of our issued share capital (see page 198). During 2023, we will seek engagement with shareholders on the external audit tender (see page 168).
- **Investor meetings, presentations and property tours:** Investor meetings are predominantly attended by our CEO, CFO and at least one other senior executive. During the year, these meetings focused on the Group’s portfolio, strategy, capital structure, outlook for yields and the occupational market backdrop. Where significant views were expressed, either during or following the meetings, these were recorded and circulated to all Directors. During 2022, we hosted year end and interim results presentations and 70 property tours.

- **Property conferences:** During 2022, we attended eight property conferences (Amsterdam, London, Miami and New York).
- **AGM:** The AGM provides an opportunity for private shareholders, in particular, to question the Directors and the chairs of each of the Board committees. Information on the 2023 AGM is on page 226, including how we would engage with shareholders in the event of a significant vote against an AGM resolution. We ensure that the Notice of AGM is issued at least 20 working days in advance of the AGM date.
- **Annual Report & Accounts:** Our annual Report & Accounts is available to all shareholders. Through our electronic communication initiatives, we aim to make our annual Report & Accounts as accessible as possible. Shareholders can opt to receive a hard copy in the post or PDF copies via email or from our website. Additionally, if a shareholder holds their Derwent London shares via a nominee account and encounters difficulty receiving our annual Report & Accounts via their nominee provider, they are welcome to contact the Company Secretary to request a copy.
- **Websites:** Our website, www.derwentlondon.com, has a dedicated investor section which includes our annual Report & Accounts, results presentations (which are made to analysts and investors at the time of the interim and full year results) and our financial calendar for the upcoming year. We also create websites for specific developments which are used to explain the Group’s current projects in greater detail.

INVESTOR MEETINGS

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we engaged with c.72% of our shareholder register during 2022

JUL	AUG	SEP	OCT	NOV	DEC
Property tours.	Published our interim results for 2022. Investor roadshows in London.	Property conferences (New York).	Payment of the 2022 Interim Dividend. Property tours.	Property tours. Property conferences (London).	Property tours. Roadshows for private investors (Leeds).

CORPORATE GOVERNANCE STATEMENT continued

HOW DO WE ENGAGE WITH OUR EMPLOYEES?

We have an experienced, diverse and dedicated workforce which is recognised as a key asset of our business. The Board and its committees routinely invite members of the management team to join meetings to present on the matters being discussed. In order to reach all employees, the Board utilises a combination of formal and informal engagement methods which are detailed below.

Dedicated Non-Executive Director

Dame Cilla Snowball is the dedicated Non-Executive Director for gathering the views of the workforce. As Chair of the Responsible Business Committee, Cilla oversaw and received updates on our employee engagement methods.

➤ FURTHER INFORMATION ON CILLA'S ROLE / See page 145

Responsible Business Committee

The Responsible Business Committee has four employee members which allows our employees to have direct involvement in decision making and works to bring the voice of our employees directly to the boardroom.

➤ See page 182

Whistleblowing

Our whistleblowing system offers an anonymous reporting line for employees to raise any concerns directly with the Board. The business continues to have an 'open door' nature where concerns are often raised directly with management, the CEO or HR team, and appropriately investigated.

➤ See page 139

Town hall meetings

The CEO hosts monthly town hall meetings to ensure all employees are kept informed of business activity. Employees are encouraged to put questions forward in advance (anonymously if they wish), which are then answered during the sessions.

DERWENT
LONDON

HOW DO WE
ENGAGE WITH OUR
EMPLOYEES?

Awayday

On 22 September we held our employee awayday which provided an opportunity for our CEO to share the vision and strategy for the future and encourage collaboration across the business.

➤ See page 62

Intranet

A variety of social media channels are utilised to enhance engagement and the exchange of information on the Company's activities to all stakeholders. These channels include Facebook, Twitter, Instagram, the DL/App and our intranet. The DL/App has been an active channel during 2022 providing information to our customers on notices, meeting rooms and events.

Employee surveys

We gather feedback regularly from our employees to assess their levels of engagement. We conduct a formal biennial employee survey, designed and developed in conjunction with an independent provider. A working group is established after each formal employee survey with the aim of making recommendations to the Executive Committee.

➤ See page 59

Working groups

The Group currently operates a number of working groups covering areas such as diversity and inclusion, innovation, and social events. Feedback received from these working groups are given to the Responsible Business Committee or the Executive Directors, which is transferred to the Board.

➤ THE DIVERSITY AND INCLUSION WORKING GROUP / See page 186

2. DIVISION OF RESPONSIBILITIES

Board roles

There is clear division between executive and non-executive responsibilities which ensure accountability and oversight. The roles of the Chairman and Chief Executive are separately held and their responsibilities are well defined, set out in writing and regularly reviewed by the Board.

<p>Chairman, Mark Breuer</p> <ul style="list-style-type: none"> Responsible for the effective running of the Board and ensuring it is appropriately balanced to deliver the Group's strategic objectives Promote a boardroom culture that is rooted in the principles of good governance and enables transparency, debate and challenge Ensure that the Board as a whole plays a full and constructive part in the development of strategy and that there is sufficient time for boardroom discussion Effective engagement between the Board, its shareholders and other key stakeholders 	<p>Chief Executive, Paul Williams</p> <ul style="list-style-type: none"> To provide clear and visible leadership Execute the Group's strategy and commercial objectives together with implementing the decisions of the Board and its committees To keep the Chairman and Board apprised of important and strategic issues facing the Group To ensure that the Group's business is conducted with the highest standards of integrity, in keeping with our culture Manage the Group's risk profile and ensure actions are compliant with the Board's risk appetite Investor relation activities, including effective and ongoing communication with shareholders
<p>Senior Independent Director, Helen Gordon</p> <ul style="list-style-type: none"> Provide a 'sounding board' for the Chairman in matters of governance or the performance of the Board Available to shareholders if they have concerns which have not been resolved through the normal channels of communication To at least annually lead a meeting of the Non-Executive Directors without the Chairman present to appraise the performance of the Chairman To act as an intermediary for Non-Executive Directors when necessary and act as Chairman if the Chairman is conflicted To act as an independent point of contact in the Group's whistleblowing procedures 	<p>Chief Financial Officer, Damian Wisniewski</p> <ul style="list-style-type: none"> Support the CEO in developing and implementing strategy Provide financial leadership to the Group and align the Group's business and financial strategy Responsible for financial planning and analysis, treasury and tax functions Responsible for presenting and reporting accurate and timely historical financial information Manage the capital structure of the Group Investor relation activities, including communications with investors, alongside the CEO
<p>Designated NED for gathering the views of our workforce¹, Dame Cilla Snowball</p> <p>Cilla Snowball has been designated the NED responsible for gathering the views of our workforce. This is achieved by:</p> <ul style="list-style-type: none"> Attendance at key employee and business events, including property launches and the Summer Party Review messages received through the whistleblowing system from the Group's employees Monitor the effectiveness of engagement programmes established for employees Provide regular updates to the Board Monitor the outcome of employee surveys and provide input on their design 	<p>Other Executive Directors</p> <ul style="list-style-type: none"> Support the CEO in developing and implementing strategy Oversee the day-to-day activities of the Group Manage, motivate and develop staff Develop business plans in collaboration with the Board Ensure that the policies and practices set by the Board are adopted at all levels of the Group Investor relation activities, including communications with investors, alongside the CEO
<p>Non-Executive Directors (NEDs)</p> <ul style="list-style-type: none"> Provide constructive challenge to our executives, help to develop proposals on strategy and monitor performance against our KPIs Ensure that no individual or group dominates the Board's decision making Promote the highest standards of integrity and corporate governance throughout the Company and particularly at Board level Determine appropriate levels of remuneration for the senior executives Review the integrity of financial reporting and that financial controls and systems of risk management are robust 	<p>Company Secretary, David Lawler</p> <ul style="list-style-type: none"> Secretary to the Board and its committees Develop Board and committee agendas and collate and distribute papers Ensure compliance with Board procedures Advise on regulatory compliance and corporate governance Facilitate induction programmes for Directors and assist with their training and development, as required Responsible for communications with retail shareholders and the organisation of the Annual General Meeting Available to support all Directors

¹ In addition, the Chairman ensures that all Directors continue to remain engaged with our employees, and challenge and contribute to discussions on workforce engagement.

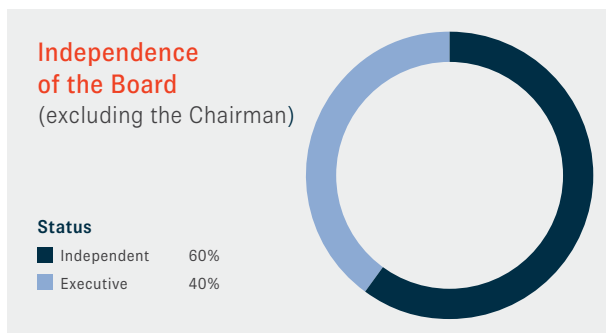
CORPORATE GOVERNANCE STATEMENT continued

Independence

The Board has identified on page 147 which Directors are considered to be independent. The Board has reconfirmed that our Non-Executive Directors remain independent from executive management and free from any business or other relationships which could materially interfere with the exercise of their judgement.

The Non-Executive Directors play an important role in holding to account the performance of executive management and ensuring that no individual or group dominates the Board's decision making. It is therefore of paramount importance that their independence is maintained. To safeguard their independence, Non-Executive Directors are not permitted to serve more than three three-year terms unless in exceptional circumstances (see page 153).

The Chairman held a number of meetings with the Non-Executive Directors without executive management being present. These meetings are useful to safeguard the independence of our Non-Executive Directors by providing them with time to discuss their views in a more private environment.



Conflicts of interest

As a Non-Executive Director's independence could be impacted where a Director has a conflict of interest, the Board operates a policy that restricts a Director from voting on any matter in which they might have a personal interest unless the Board unanimously decides otherwise.

Prior to all major Board decisions, the Chairman requires the Directors to confirm that they do not have a potential personal conflict with the matter being discussed. If a conflict does arise, the Director is excluded from discussions.

Richard Dakin will step down from the Board on 28 February 2023, however prior to his departure he had an active conflict of interest which was mitigated by the Board by excluding him from discussions relating to the Group's valuation, appointment of valuers and their fees. To accommodate this, the Audit Committee held separate valuation meetings which Richard did not attend. From 1 March 2023, the separate valuation meetings will no longer be required.

➤ RELATED PARTY DISCLOSURES / See page 290

Other external appointments

The Board takes into account a Director's other external commitments when considering them for appointment to satisfy itself that the individual can discharge sufficient time to the Derwent London Board and assess any potential conflicts of interest. Our Directors are required to notify the Chairman of any alterations to their external commitments that arise during the year with an indication of the time commitment involved.

When assessing additional directorships, the Board considers the number of public directorships held by the individual already and their expected time commitment for those roles (see biographies on pages 134 and 135).

Executive Directors may accept a non-executive role at another company with the approval of the Board. Currently, none of our Executive Directors are directors of other listed companies. However, several of our Executive Directors are Trustees of charitable organisations or members of industry-related bodies.

The Board takes into account guidance published by institutional investors and proxy advisers as to the maximum number of public appointments which can be managed efficiently. The Board confirms that none of our Directors are overcommitted and are capable of discharging sufficient time to Derwent London. For the table below, we have used the methodology contained in the ISS UK and Ireland Proxy Voting Guidelines in respect of overboarding to calculate our Non-Executive Directors' mandates.

All Directors have confirmed (as they are required to do annually) that they have been able to allocate sufficient time to discharge their responsibilities effectively (see table on page 147 for Board meeting attendance).

	Non-Executive Director		Board Chairman		Executive Director		Total Mandates ¹
	Appointments	Mandates	Appointments	Mandates	Appointments	Mandates	
Mark Breuer	–	–	2	4	–	–	4
Claudia Arney	2	2	1	2	–	–	4
Lucinda Bell	3	3	–	–	–	–	3
Richard Dakin	1	1	–	–	–	–	1
Helen Gordon	1	1	–	–	1	3	4
Sanjeev Sharma	1	1	–	–	1	3	4
Cilla Snowball	1	1	–	–	–	–	1

¹ Inclusive of their appointment at Derwent London plc. For the purposes of calculating the number of total mandates: a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.

3. COMPOSITION, SUCCESSION AND EVALUATION

Board composition, skills, experience and knowledge

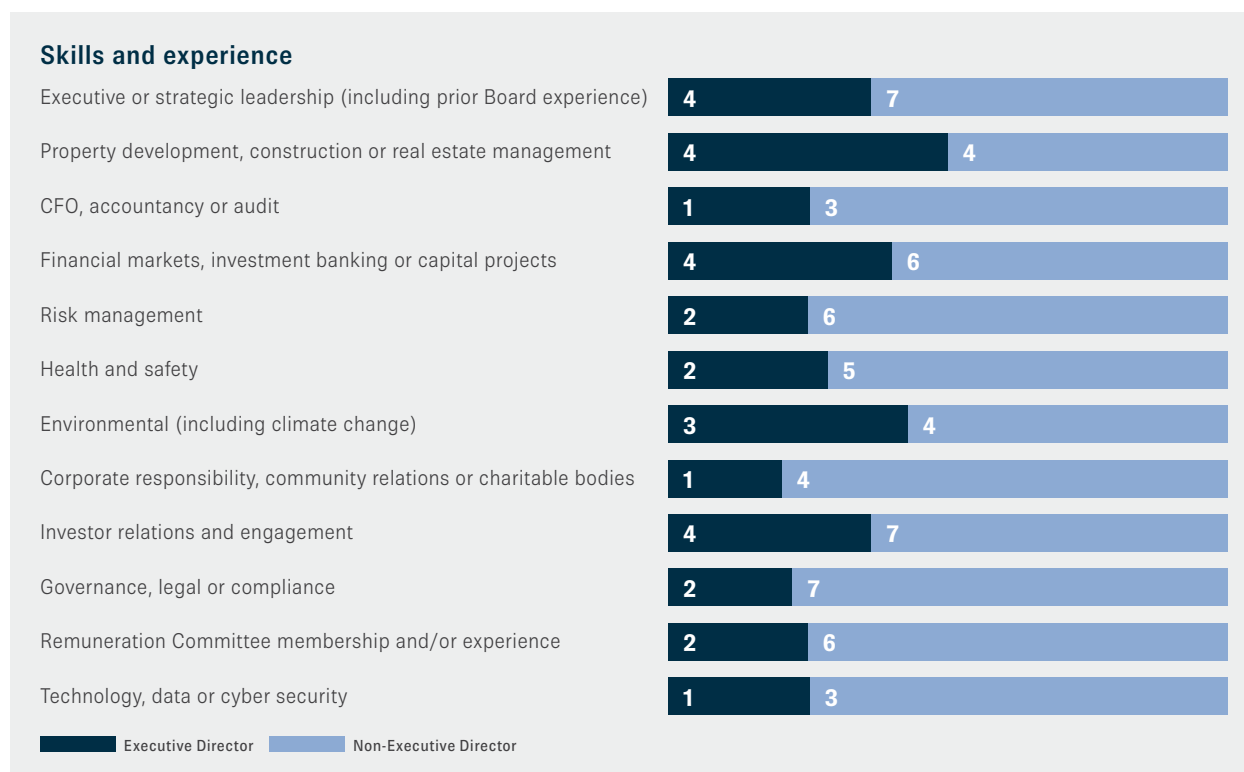
Our Board is a diverse and effective team, focused on promoting the long-term success of the Group for the benefit of all stakeholders.

	Independent	Number of meetings	Attendance at Board meetings ¹
Chairman			
Mark Breuer	Yes	7	100%
Executive Directors			
Paul Williams	No	7	100%
Damian Wisniewski	No	7	100%
Nigel George	No	7	100%
Emily Prideaux	No	7	100%
David Silverman (until 14 April 2022) ²	No	1	100%
Non-Executive Directors			
Claudia Arney	Yes	7	100%
Lucinda Bell	Yes	7	100%
Richard Dakin	Yes	7	100%
Helen Gordon	Yes	7	100%
Cilla Snowball	Yes	7	100%
Sanjeev Sharma	Yes	7	100%

¹ Percentages based on the meetings entitled to attend for the 12 months ended 31 December 2022.

² David Silverman stepped down from the Board on 14 April 2022.

The chart below provides an overview of the skills and experience of our Directors as at 31 December 2022. To be counted for each skill area, a Director is required to have executive or senior management experience.



For the skill areas which our Directors have less experience at an executive-level, we provide training and regular updates either to the entire Board or to specific committees.

CORPORATE GOVERNANCE STATEMENT continued

Training

With the ever-changing environment in which Derwent London operates, it is important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments. We require all Directors to keep their knowledge and skills up to date and include training discussions with the Chairman in their annual performance reviews.

As required, we invite professional advisers to provide in-depth updates. Updates and training are not solely reserved for legislative developments but aim to cover a range of issues including, but not limited to, market trends, the economic and political environment, environmental, technological and social considerations.

Our Company Secretary provides regular updates to the Board and its committees on regulatory and corporate governance matters. In addition, we invite our Directors to attend courses hosted by the Deloitte Academy and PwC.

Our Directors receive training on their duties under section 172(1) of the Companies Act 2006 as part of their induction process from the Group's corporate lawyers, Slaughter & May LLP. The training is uploaded to the Board's paper portal for easy reference. In addition, at each meeting, the Board's pack of documents includes the codification of its duties alongside the meeting agenda to ensure it is at the forefront of discussions.

➤ COMPLIANCE TRAINING / See page 171

During 2022:

- All Directors were provided with refresher training on health and safety from external lawyers.
- All employees (including Directors) participated in online compliance training courses on a range of topics including disability awareness, modern slavery and market abuse (further information on page 171).
- The Audit Committee received training on climate-related reporting (see page 158) and the technology used in our finance systems.
- The Risk Committee received a legal update from Slaughter & May LLP in November.
- All Directors attended regular external briefing sessions from the major accountancy firms.

Appointments to the Board

At Derwent London, we ensure that appointments to our Board are made solely on merit with the overriding objective of ensuring that the Board maintains the correct balance of skills, length of service and knowledge of the Group to successfully determine the Group's strategy. The Nominations Committee report on pages 152 to 155 provides further information on:

- Board composition and Non-Executive Director tenure;
- Board appointments and induction;
- succession planning; and
- diversity.



Members of the Company Secretarial team

ANNUAL BOARD EVALUATION

On an annual basis, an evaluation process is undertaken which considers the effectiveness of the Board, its principal committees and individual Directors. This review identifies areas for improvement, informs training plans for our Directors and identifies areas of knowledge, expertise or diversity which should be considered in our succession plans. The Board follows a formal three-year cycle that was developed to enable reviews to be led from a fresh perspective, each year.



Evaluation for the year ended 31 December 2021

The 2021 Board evaluation was internally facilitated by Mark Breuer (Chairman) and was outlined in the 2021 Report & Accounts on page 141. As a result of this evaluation, the Board identified a number of areas which it wished to focus upon during 2022:

Focus area	Actions during 2022
Company culture	With assistance from advisers, it was ensured that the Group’s culture was clearly understood by our employees and key stakeholders
Employee development and career management	The Nominations Committee continued to focus on employee development and career management
Board papers	Board papers were continued to be streamlined and supporting papers were included as appendices Papers to committee members were distributed a week prior to each meeting

Evaluation for the year ended 31 December 2022

Our external Board evaluation for the year ended 31 December 2022 was externally facilitated by Manchester Square Partners LLP. When selecting a board evaluator, each firm was required to provide a written proposal and present to the Chairman, Senior Independent Director and Company Secretary. The following factors were considered:

- The evaluator’s proposed method and approach
- Their experience, skills and references
- Any potential conflicts of interest

The evaluation process

The evaluation process was tailored to Derwent London based on discussions with the Chairman, Senior Independent Director and Company Secretary. The Company Secretary provided the evaluator with any requested information to facilitate the review. The individual interviews with the Directors and the Company Secretary were conducted during November/December and typically lasted for one hour and 30 minutes.

Feedback from the 2022 Board evaluation

The evaluation confirmed that the Board is functioning well, and governance is strong. It was recognised that there was a good degree of trust, confidence and healthy respect between the Executive and Non-Executive Directors. The main recommendations are detailed below:

- Non-Executive Directors to meet privately at the end of each Board meeting and to hold occasional one-to-one meetings with the Chairman
- The Non-Executive Directors are to be provided with more frequent updates on market trends, competitor activity and the outcome of post-project reviews
- Arrange more site visits and ensure some Board meetings are held at other Derwent London buildings
- Consider whether all Non-Executive Directors should become members of each committee
- Continue to focus on succession and talent development
- Review the Board skills matrix to further understand the skills required before agreeing the plans for Non-Executive Directors succession

Re-election of Directors

In accordance with the Code, the Directors will be putting themselves forward for re-election at the AGM on 12 May 2023. Following the formal performance evaluation (detailed above) and taking into account the Directors’ skills and experience (set out on pages 134, 135 and 147), the Board believes that the re-election of each Director is in the best interests of the Company.

Evaluation for the year ended 31 December 2023

In accordance with our three-year cycle, the performance evaluation for the year ending 31 December 2023 will be internally facilitated by Helen Gordon, our Senior Independent Director.

CORPORATE GOVERNANCE STATEMENT continued

KEY ACTIVITIES OF THE BOARD DURING 2022

OVERVIEW

The Board met seven times during the year (including the Annual General Meeting). Additional meetings are arranged if necessary for the Board to properly discharge its duties. An overview of our Board's key activities is provided below.

Property portfolio

- Approved the acquisition of 230 Blackfriars Road, SE1
- Approved the sale of:
 - Bush House, WC2
 - New River Yard, EC1
 - Charterhouse Street, EC1
- Exchanged a conditional contract to acquire the freehold of Old Street Quarter, EC1
- Reviewed a project time plan for Network W1
- Received regular updates on key construction projects
- Regular updates from Asset and Property Management on the portfolio
- Appointed Knight Frank as the Group's external valuer
- Received regular updates on lease expiries and potential vacancies
- Approved DL/28 in Old Street

Strategy and financing

- Ongoing updates from the Executive Directors on the implementation of strategy throughout the year, including a Board strategy awayday in June
- Reviewed and approved the Group's five-year plan and forecast
- Reviewed quarterly project cost reports
- Approved the portfolio valuation as at 30 June 2022
- Approved the new Remuneration Policy ahead of the 2023 AGM
- Approved 2022 interim and final dividends

Risk management and internal control

- Reviewed and approved updates to the key risk indicator schedule
- Updates from the Risk and Audit Committee Chairs on the key areas discussed
- Routinely considered the Board's conflict of interests
- Received an update on Cyber & IT Security
- Regular reports received on health and safety matters
- Followed up on recommendations by the outsourced internal auditors
- Received assurance reports from Deloitte in respect to environmental reporting
- Reviewed the compliance training completion rates and approved the 2022/2023 training programme

Strategic objectives



Strategic objectives





Strategic objectives



	JAN	FEB	MAR	APR	MAY	JUN
Board and committee meetings		Audit Committee & Valuers meeting Executive Committee Main Board Remuneration Committee		Executive Committee Risk Committee	Annual General Meeting Executive Committee Main Board Responsible Business Committee	Main Board (strategy awayday) Nominations Committee
Key announcements	Sale of New River Yard, EC1	Full year results announcement on 24 February 2022		Report & Accounts and Notice of AGM	Q1 Business update Old Street Quarter EC1, Exchange of Contract LMS Bondholders meeting Published results of 2022 AGM	

Key to strategic objectives

 TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO

 TO GROW RECURRING EARNINGS AND CASH FLOW

 TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES

 TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY

 TO MAINTAIN STRONG AND FLEXIBLE FINANCING

Corporate reporting and performance monitoring

- Reviewed the rolling forecasts and approved the 2023 budget
- Received updates on the Group's Net Zero Carbon Pathway to 2030
- Approved the year end and interim results
- Approved the Q1 and Q3 business updates
- Reviewed the 2022 Report & Accounts to ensure it is fair, balanced, and understandable
- Published our annual Responsibility Report
- Reviewed and approved the half-yearly valuations of the Group's property portfolio

Stakeholder engagement

- Hosted the Annual General Meeting (AGM) on 13 May 2022
- Received updates from the Responsible Business Committee on the Group's sustainability and stakeholder initiatives
- Received updates on our investor engagement programmes and regular investor relations reports
- Engaged with shareholders in advance of the 2023 AGM on the Remuneration Policy
- Hosted a staff awayday that prioritised employee collaboration

Governance

- Performed a review of the Board committees' memberships, led by the Chairman
- Received regular governance updates from the Company Secretary
- Approved the 2022 Modern Slavery Statement
- Appointed Manchester Square Partners LLP to conduct the 2022 Board evaluation
- Reviewed the Group's vision, purpose and values
- Reviewed succession planning and talent development across the business

Strategic objectives



Strategic objectives



Strategic objectives



JUL	AUG	SEP	OCT	NOV	DEC
Executive Committee	Audit Committee & Valuers meeting Main Board Nominations Committee Risk Committee	Executive Committee Remuneration Committee	Executive Committee Main Board Remuneration Committee	Audit Committee Executive Committee Risk Committee	Main Board Remuneration Committee Responsible Business Committee
Disposal of Bush House WC2	Unaudited interim results			Q3 Business update	

NOMINATIONS COMMITTEE REPORT



MARK BREUER

Chair of the Nominations Committee

2023 FOCUS AREAS

- Ensure a smooth transition of responsibility to Helen Gordon as she succeeds Richard Dakin from 1 March 2023 as Risk Committee Chair
- Commence recruitment of a new Non-Executive Director in Q3 2023, based on a review of the Board's composition, skills and diversity
- Continue to monitor the Group's long-term succession and talent development pipeline

COMMITTEE MEMBERSHIP DURING 2022

	Independent	Number of meetings ¹	Attendance ²
Mark Breuer	Yes	3	100%
Claudia Arney	Yes	3	100%
Lucinda Bell	Yes	3	100%
Richard Dakin	Yes	3	100%
Helen Gordon	Yes	3	100%
Sanjeev Sharma	Yes	3	100%
Cilla Snowball	Yes	3	100%

¹ The Committee attended three scheduled meetings with an additional ad hoc meeting being held in February. Due to prior business arrangements Claudia Arney and Cilla Snowball were unable to attend the ad hoc meeting.

² Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2022.

Dear Shareholder,

I am pleased to present an overview of the Committee's work during 2022. The Committee has principally focused on succession planning and talent development.

Succession planning

Richard Dakin (Non-Executive Director) will step down from the Board on 28 February 2023. Helen Gordon, who is currently a member of the Risk Committee, will take over responsibility for chairing the Risk Committee from 1 March 2023.

The Committee monitors the tenure of Non-Executive Directors to effectively manage succession planning (see page 154). Claudia Arney will approach the end of her ninth year on the Board in Q1 2024 and will be succeeded by Sanjeev Sharma as Remuneration Committee Chair. During Q3 2023 the Committee will lead the recruitment process for a new Non-Executive Director in preparation of Cilla Snowball approaching the end of her ninth year anniversary on the Board in the second half of 2024.

Talent development

I am delighted to see a number of internal promotions as well as the strengthening of teams through external appointments. Derwent London's talented and diverse employees are a key asset and as such, the Committee met regularly to review succession and talent development plans. A number of key appointments to the senior management team have been made during 2022, further details are on page 154.

Diversity and inclusion

The Board is fully compliant with the diversity recommendations arising from the Parker Review and the FTSE 350 Women Leaders Review (see page 155). In respect to ethnic diversity, we are mindful that this remains a focus area so that we can further harness the benefits of diversity. We intend to continue to support the diversity and development of the Group's talent pipeline.

Further engagement

If you wish to discuss any aspect of the Committee's activities, I will be attending the forthcoming AGM on 12 May 2023 and would welcome your questions. I am also available via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or
Email: company.secretary@derwentlondon.com

MARK BREUER

Chair of the Nominations Committee

27 February 2023

Committee composition and performance

Our Committee consists of six independent Non-Executive Directors as well as our independent Chairman (biographies are available on pages 134 to 135). At the request of the Committee, members of the Executive Committee, Executive Directors, members of the senior management team and external advisers may be invited to attend all or part of any meeting, as and when appropriate.

During the year under review, the Committee held three meetings (2021: eight meetings). 2021 was a particularly busy year for the Committee with the appointment of both a new Non-Executive Director and Chairman, leading to a higher number of meetings being held.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in August 2022 and are on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

Board and committee composition

The 2022 evaluation of the Board, its committees and individual Directors was externally facilitated by Manchester Square Partners LLP, in accordance with our three-year cycle of evaluations (see page 149). The review confirmed that the Committee continues to operate effectively, with no significant matters raised.

On a regular basis, the Nominations Committee considers the composition of the Board and its committees in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations. The Committee did not identify any material skill gaps on the Board or its committees. An overview of the Board's skills, experience and knowledge is on page 147.

The table below provides an overview of the composition of the Board's five principal committees as at 1 January 2023. Further information on the Board's diversity is on page 155.

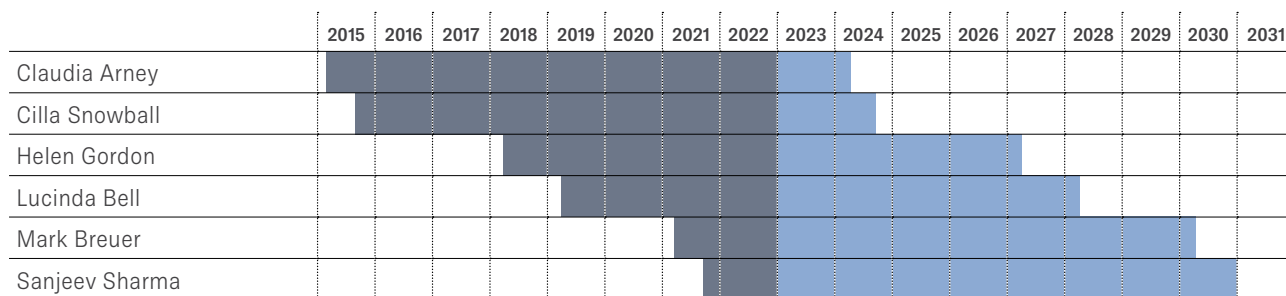
Board and committee composition table

	Audit	Risk	Remuneration	Nominations	Responsible Business
Mark Breuer				Chair	
Richard Dakin	✓	Chair		✓	
Claudia Arney	✓		Chair	✓	✓
Cilla Snowball		✓		✓	Chair
Helen Gordon		✓	✓	✓	
Lucinda Bell	Chair	✓	✓	✓	
Sanjeev Sharma	✓	✓	✓	✓	
Number of independent NEDs:	4	5	4	7	2
Number of Executive Directors:	-	-	-	-	1
Number of employee representatives:	-	-	-	-	4
Total membership:	4	5	4	7	7

Following the Committee's review, it was confirmed that the membership of the five principal committees continues to be appropriate, effective and in accordance with the 2018 UK Corporate Governance Code.

Non-Executive Directors' tenure

The Committee monitors a schedule of the Non-Executive Directors' tenure and reviews potential departure dates assuming the relevant Directors are not permitted to serve more than three three-year terms (nine years) from their appointment date, unless in exceptional circumstances (see the chart below).



NOMINATIONS COMMITTEE REPORT continued

SUCCESSION PLANNING

As Directors we have a duty to ensure the long-term success of the Company, which includes ensuring that we have a steady supply of talent for executive positions and established succession plans for Board changes. The Committee considers the Group's succession planning on a regular basis to ensure that changes to the Board are proactively planned and coordinated.

Non-Executive Director succession

The Committee monitors a schedule of the Non-Executive Directors' tenure and reviews potential departure dates assuming the relevant Directors are not permitted to serve more than three three-year terms (nine years) from their appointment date, unless in exceptional circumstances. Details of the Non-Executive Directors' tenure is on page 153.

Richard Dakin will step down from the Board on 28 February 2023. The extension of Richard's appointment from August 2022 to February 2023 facilitated an effective handover of responsibility to Helen Gordon who will succeed Richard Dakin as Risk Committee Chair from 1 March 2023.

The Committee is aware that both Claudia Arney and Dame Cilla Snowball are approaching their ninth anniversary on the Board. In preparation, Sanjeev Sharma joined the Remuneration Committee during 2022 and has been fully involved in the Remuneration Policy review. Sanjeev's appointment to the Committee ensures that he will have served on a Remuneration Committee for 12 months prior to succeeding Claudia Arney as Chair, in accordance with the 2018 UK Corporate Governance Code. The Committee will seek to recruit a new Non-Executive Director during the second half of 2023 in advance of Dame Cilla Snowball reaching her ninth anniversary on the Board.

Executive Committee

The Group's talent pipeline has been strengthened through a number of internal promotions. During the year, Philippa Davies (Head of Leasing) joined the Executive Committee and effective from 1 January 2023, Robert Duncan (Head of Investor Relations & Strategic Planning) and Katy Levine (Head of Human Resources) also became Executive Committee members.

As at 1 January 2023, the composition of the Executive Committee consists of four Executive Directors, the Company Secretary and nine senior managers. The gender diversity composition of the Executive Committee is now 42.9% female, achieving the FTSE 350 Women Leaders Review target of 40% (see page 155).

Senior management

The Executive Directors are responsible for the Group's succession plans below the Board. The Committee receives periodic updates on these succession plans and monitors the development of the Executive team below the Board, to ensure that there is a diverse supply of senior executives and potential future Board members with appropriate skills and experience. During the year, these discussions led to the creation of personal development plans for specific individuals, coaching sessions and the appointment of mentors.

Alongside a number of executive promotions there have been external recruitments to strengthen teams further, including the appointment of Richard Dean as Director of Investments and Matt Peaty as Head of Health and Safety.

Board appointments

The Committee is responsible for leading the recruitment process for new directors. Generally, the Committee will utilise either open advertising or an external search consultancy when recruiting a Chairman for the Board or a new Non-Executive Director. During the year under review, there have not been any new appointments made to the Board.

The Board's appointment policy requires that, where possible, each time a Director is recruited at least one of the shortlisted candidates is female and at least one of the candidates is from an ethnic minority group. Whilst we have identified areas where we could further improve our diversity balance, principally our ethnic diversity, we do not positively discriminate during the recruitment process.

The Company provides new Directors with a comprehensive and tailored induction process which includes visiting a number of the Group's properties, meetings with the Group's audit partner and corporate lawyer, together with meetings with the Executive Directors, Executive Committee and senior management.

Induction programmes are developed by the Group's Company Secretarial team and approved by the Chair of the Committee. If considered appropriate, new Directors are also provided with external training that addresses their role and duties as a Director of a quoted public company. We aim to limit the amount of information provided as reading material during an induction process. All new Directors are provided with access to our electronic Board paper system and the Group intranet which provides easy and immediate access to key documents.

BOARD DIVERSITY

A diversified Board brings constructive challenge and fresh perspectives to discussions. We consider diversity, in its widest sense (and not limited to gender), during our Board and committee composition reviews and the development of recruitment specifications during recruitment.

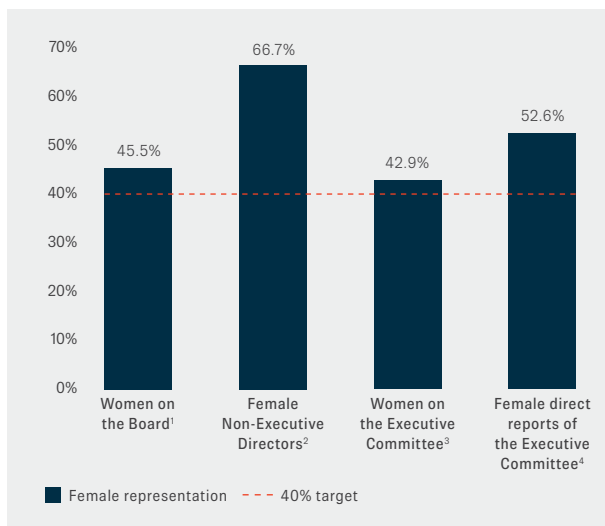
The Listing Rules were updated to include specific diversity targets which require companies to report against on a 'comply or explain' basis.

Target	Compliance
At least 40% of the Board are women	45.5% of our Board are women
At least one of the senior Board positions is held by a woman	Helen Gordon is our Senior Independent Director
At least one member of the Board is from a minority ethnic background	Sanjeev Sharma joined the Board in October 2021

FTSE 350 Women Leaders Review

During 2022, the FTSE 350 Women Leaders Review published its recommendations which aim to further female representation on boards beyond the Hampton Alexander Review targets, increasing the target from 33% to 40%.

We are pleased that Derwent London's efforts to actively promote the importance of diversity has ensured our Board and senior management teams achieve the targets set by the FTSE 350 Women Leaders Review, the Listing Rules and the Parker Review.



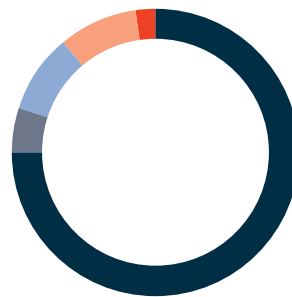
1 The Board, including the Chairman.
 2 Independent Non-Executive Directors, excluding the Chairman.
 3 The combined diversity balance of the Executive Committee and its direct reports (excluding administrative and support staff) is 50.7% women.
 4 Direct reports to the Executive Committee, excluding administrative and support staff, is 52.6% women. Direct reports to the Executive Committee, including administrative and support staff, is 59.4% women.

Ethnic diversity

The Parker Review continues to monitor and champion ethnic diversity on boards. During 2022, an updated report of the Parker Review was published which outlined the progress made to date. Within the FTSE 250, 128 companies had achieved the Parker Review's recommendations, which included Derwent London.

The Diversity and Inclusion Working Group (D&I Working Group) has established initiatives and events which focused on further harnessing, and celebrating, the benefits of diversity. Further information on the actions of the D&I Working Group is on page 186.

Diversity of all Derwent London employees



White British/White Other	75.0%
Mixed/Multiple Ethnic Groups	4.9%
Asian/Asian British	9.2%
Black/African/Caribbean/Black British	8.7%
Other Ethnic Group	2.2%

BOARD DIVERSITY

9.1%

of the Board (including the Chairman) is from an ethnic minority group

AUDIT COMMITTEE REPORT



LUCINDA BELL
Chair of the Audit Committee

2023 FOCUS AREAS

- Conduct a competitive tender for our external Auditor
- Continue to monitor the development of BEIS audit, reporting and governance reform and our response
- Monitor the assessment of Derwent London's internal financial controls against the Committee of Sponsoring Organisation (COSO) Framework
- Continue to focus on climate change matters in financial statements, including assurance from Deloitte on ESG disclosures
- Monitor and approve the judgements and assumptions adopted by management in the preparation of the Group's financial statements
- Review the model used for the provision of internal audit services

COMMITTEE MEMBERSHIP DURING 2022

	Independent	Number of meetings	Attendance ¹
Lucinda Bell	Yes	3	100%
Claudia Arney	Yes	3	100%
Richard Dakin ²	Yes	3	100%
Sanjeev Sharma	Yes	3	100%

¹ Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2022.

² Richard Dakin steps down as a Director on 28 February 2023.

Dear Shareholder,

I am pleased to provide you with an overview of the Committee's main activities and areas of focus during the year.

Portfolio valuation

The Committee considers the valuation of the Group's property portfolio to be the principal area of judgement in determining the accuracy of the financial statements (see page 165). In 2022, we sought clarity on how the portfolio valuation took into account climate-related risks, opportunities and the cost of EPC upgrades (see page 158). The Committee was satisfied with Knight Frank's performance at the half year and approved their appointment as valuer for the entire London portfolio for the 2022 year end.

Climate change

Climate disclosures and emissions reporting can be complex. The Committee continues to monitor developing best practice, and seeks training and/or professional guidance when required, to ensure we continue to oversee reporting effectively in this area. During the year, we received training from Deloitte and reviewed the outcome of their ESG 'reasonable assurance'.

External audit tender

PricewaterhouseCoopers (PwC) were appointed as the Group's external Auditors in 2014. In accordance with the Competition and Markets Authority order, the Committee will conduct a comprehensive audit tender during 2023. The Committee has been preparing for the tender and has outlined its proposed timetable on pages 168 to 169. The Committee extends an invitation to all interested shareholders to engage with us on the tender. Dialogue with our shareholders is important to us and will inform the Committee's discussions and decisions. You can reach me via our Company Secretary, David Lawler.

Restoring trust through the key BEIS reforms

The BEIS Response Statement to the consultation on audit and corporate governance reform was published on 31 May 2022. We sought assurance from management that the business was being proactive in ensuring its preparedness, particularly in respect to internal financial controls. During 2023, a thorough review of the Group's internal financial controls will be conducted, to identify improvements in the documentation or evidencing of controls.

Further engagement

If you wish to discuss any aspect of this report, please contact me via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or
Email: company.secretary@derwentlondon.com

LUCINDA BELL
Chair of the Audit Committee

27 February 2023

Committee composition and performance

During the year under review, the Committee was composed of independent Non-Executive Directors with a wide range of experience, including real estate and finance (biographies are available on pages 134 and 135). The Board considers that the Committee (including its Chair, Lucinda Bell) is composed of a sufficient number of financial experts, with an appropriate level of recent and relevant financial experience, to discharge its duties. At the request of the Committee Chair, meetings are attended by the Board Chairman, internal and external Auditors, and members of the Group’s senior management team. In addition, Deloitte regularly attends meetings when ESG assurance is discussed. To further facilitate open dialogue, the Committee holds private sessions with the Auditors without members of management being present.

During 2022, the Committee held three scheduled meetings (2021: four meetings) with two separate meetings with the Group’s external property valuers. In addition, the Risk Committee held three meetings during 2023 (see page 171). The Committee considers that the eight meetings provided sufficient time to oversee financial, audit and risk-related matters. Due to the external audit tender being undertaken in 2023, it is anticipated that the Committee will meet at least four times. The Committee’s role and responsibilities are set out in the terms of reference, which were last updated in February 2022 and are available on the Company’s website at: www.derwentlondon.com/investors/governance/board-committees

The 2022 evaluation of the Board, its committees and individual Directors was externally facilitated by Manchester Square Partners LLP, in accordance with our three-year cycle of evaluations (see page 149). The review confirmed that the Committee continues to operate effectively, with no significant matters raised.

FINANCIAL REPORTING

One of the Committee’s principal responsibilities is to review and report to the Board on the clarity and accuracy of the Group’s financial statements, including the annual Report & Accounts and interim statement. When conducting its reviews, the Committee considers the overall requirement that the financial statements present a ‘true and fair view’ and the following:

- the accounting policies and practices applied (see note 43 on pages 299 to 304) including in respect to any significant transactions during the year;
- material accounting assumptions and estimates made by management (see note 3 on pages 250 to 252);
- significant judgements or key audit matters identified by the external Auditor (see pages 233 to 236);
- the effectiveness and application of internal financial controls (see pages 160 and 161); and
- compliance with relevant accounting standards and other regulatory financial reporting requirements including the UK Corporate Governance Code and European Single Electronic Format (ESEF) requirements.

Restoring trust through the key BEIS reforms

The BEIS Response Statement was published on 31 May 2022. Although the timescale for reform has not yet been established, the reforms will be introduced through a combination of primary and secondary legislation and changes to the UK Corporate Governance Code.

Under the reforms, Derwent London plc is an existing Public Interest Entity (PIE) that does not meet the new size threshold. As a result, some of the new requirements, including the additional reporting disclosures (e.g. Audit & Assurance Policy, Resilience Statement etc.), are not applicable to the Group. As the Committee welcomes all developments which aim to improve transparency in governance and trust in our disclosures, we intend to adopt the following on a voluntary basis:

- **Assurance:** On pages 162 to 164, the Committee has disclosed our approach to assuring the information we externally disclose, and the level of assurance received on key disclosures in the 2022 Report & Accounts.
- **Resilience statement:** On pages 108 to 111, we have expanded our going concern and viability disclosures to include the short-, medium- and long-term threats to the Company’s resilience, as required by a Resilience Statement.
- **Fraud risk:** In November 2022, the Committee received fraud awareness training. A Fraud Risk Management Framework has been developed, based on the Committee of Sponsoring Organisation (COSO) principles, which was reviewed by the Committee in February 2023. Under the Framework, focus areas have been agreed for 2023.

In respect to the reforms which apply to Derwent London, the Committee has received updates from management on how we are preparing for the new requirements.

Future requirement	Preparation
Boards to provide an explicit statement on the effectiveness of internal control systems (financial, operational and compliance), and a basis for the directors’ assessment.	To further strengthen our internal financial controls, we intend to adopt the COSO Framework, a recognised standard. A thorough review will be conducted to identify improvements in our controls and/or the documentation of processes.
Increased accountability of directors and minimum standards for audit committees on audit tendering and monitoring of audit quality.	The Committee has reviewed the proposed Minimum Standards for Audit Committees contained in the FRC’s consultation and will monitor their development. Once the FRC publishes its final Minimum Standards for Audit Committees, the Committee will revise its Terms of Reference.
Managed shared audits for the FTSE 350 implemented on a phased basis with the Auditing, Reporting and Governance Authority (ARGA) able to determine exemptions.	No preparation is currently required as this will not become applicable for Derwent London in the short- or medium-term. The Committee will continue to keep the development of guidance on managed shared audits under review.

AUDIT COMMITTEE REPORT continued

Review of the 2022 Report & Accounts

At the request of the Board, the Committee was asked to review the Group's Report & Accounts and to consider whether, taken as a whole, it was fair, balanced and understandable. In carrying out its review, the Committee had regard to the following:

Fairness and balance

- Is the report open and honest?
- Are we reporting on our weaknesses, difficulties and challenges alongside our successes and opportunities?
- Do we provide clear explanations of our KPIs and is there strong linkage between our KPIs and our strategy?
- Do we show our progress over time and is there consistency in our metrics and measurements?

Understandable

- Do we explain our business model, strategy and accounting policies simply, using precise and clear language?
- Do we break up lengthy narrative with quotes, tables, case studies and graphics?
- Do we have a consistent tone across the Report & Accounts?
- Are we clearly 'signposting' to where additional information can be found?

Specific considerations for the 2022 Report & Accounts

- Whether we provide sufficient disclosures on the assurance of information reported within the annual Report & Accounts (see pages 162 to 164).
- Whether we clearly explain the climate change-related risks and opportunities facing the Group and our progress against our Net Zero Carbon Pathway (see pages 52 to 56 and 69 to 85).
- Whether our diversity policy and target disclosures are consistent with the amendments to the Disclosure Guidance and Transparency Rules within DTR 1B.1.5 R. (see pages 155 and 189).
- Whether we provide sufficient disclosures on the impact of the macroeconomic outlook, inflation and changing rising interest rate environment.

The Committee paid particular attention to these changes to ensure they did not impact on the balance and clarity of the Report & Accounts.

Following its review, the Committee confirmed to the Board that the 2022 Report & Accounts is fair, balanced and provides sufficient clarity for shareholders to understand our business model, strategy, position and performance.

CLIMATE CHANGE

The Group is committed to being net zero carbon by 2030. The Committee's role is to gain assurance that the effects and consequences of climate change are being adequately reflected in our financial statements and valuations.

Training and assurance

Climate disclosures and emissions reporting can be complex. During 2022, the Committee requested training, provided by Deloitte, on the following:

- FCA and FRC feedback on TCFD reporting
- How audit committees can review greenhouse gas emissions and Streamlined Energy and Carbon Reporting
- Update on the International Sustainability Standards Board (ISSB)

The Committee will continue to monitor developing best practice, and seek training/professional guidance when required, to ensure it continues to effectively oversee our reporting in this area. As ESG controls is an area of evolving best practice, it will be a focus area for the Group in 2023 and 2024.

At the request of the Committee, our Task Force on Climate-related Financial Disclosures (TCFD) reporting was reviewed. Although, the Group has used the TCFD guidelines as part of its environmental reporting since 2018, it has only been mandatory since 2021. The outcome of the review was shared with the Committee and the key recommendations are incorporated into our reporting.

The Committee receives further assurance through Deloitte's 'reasonable assurance' of our selected ESG metrics. Deloitte provided updates to the Committee on its assurance reviews and, in 2021 and 2022, provided training on how our level of assurance compares to our industry peers. Further information on ESG assurance is on page 163.

Impact on the valuation

During the year, the Committee sought clarity on how the valuation of our portfolio took into account climate-related risks, opportunities and the cost of EPC upgrades. Knight Frank confirmed that its valuers factor the potential impact on value of ESG risks and sustainability credentials in line with market best practice.

A feasibility and cost study conducted in 2021 concluded that, to achieve the proposed minimum energy performance certificate (EPC) rating of B by 2030, the Group would need to spend approximately £97m. This estimate has been updated to reflect cost inflation and recent disposals of assets (further information on page 14). In 2022, the Committee sought clarity on the proportion of the required capital expenditure which was already accounted for within the Group's ongoing refurbishment programme for the upgrading of our older buildings and therefore, reflected in the valuation, and considered the appropriate accounting treatment for the balance.

SIGNIFICANT FINANCIAL JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

Any key accounting issues or judgements made by management are monitored and discussed with the Committee throughout the year. The table below provides information on the key issues discussed with the Committee in 2022 and the judgements adopted.

Issue	Assumptions or estimates	Judgement
Valuation of the Group's property portfolio		
Due to its size, nature and the direct impact upon the Group's net asset value, the Committee considers this to be the primary area of judgement in determining the accuracy of the financial statements.	The valuation considers a range of assumptions including future rental income, investment yields, anticipated outgoings and maintenance costs, future development expenditure and appropriate discount rates. The external valuers also make reference to market evidence of transaction prices for similar properties (see note 16 on pages 264 and 265).	The valuation is performed twice yearly by the external valuers and, due to its significance, is also reviewed by the external Auditor. The Committee reviewed the underlying assumptions used in the valuation, including the Group's development property portfolio and property held in joint ventures and the external valuers' objectivity and methodology. These procedures enabled the Committee to be satisfied with the assumptions and estimates used in the valuation of the Group's property portfolio.
Borrowings and derivatives		
The calculation of fair values for the Group's financial instruments, such as the USPP notes, 2031 bonds, 2025 convertible bonds and interest rate swaps, is a technical and complex area and the amounts involved are significant.	The fair values of the Group's borrowings and interest rate swaps are provided by an independent third party based on information provided to them by the Group. This includes the terms of each of the financial instruments and data available in the financial markets (see note 25 on pages 272 to 281).	The Committee noted that the valuations were carried out by an independent third party which had valued the instruments in previous years and that the external Auditor used its own treasury specialists to re-perform the valuation and to assess the reasonableness thereof. The external Auditor subsequently confirmed that no issues had arisen relating to the valuations. The Committee was satisfied with the level of assurance gained from these procedures.
Impairment review		
Sentiment amongst our occupiers continued to improve through 2022, with rent collection levels across the office portfolio close to pre-Covid levels. However, due to the economic situation, rising interest rates and inflation, there remains a heightened risk of financial difficulty among some of our tenants.	Impairment testing of trade receivables and accrued income recognised in advance of receipt has been carried out in accordance with IFRS 9 using the expected credit loss model. This has required judgements to be made in relation to recoverability and estimated probability of default across our whole portfolio. The overall probability of default has been estimated as lower compared with 31 December 2021.	The probability of default was considered using a risk-based approach. In particular, our top 50 tenants, those in administration or CVA or in high risk sectors, such as retail and hospitality, were looked at in detail with the remaining balances classified by sector. The review was carried out by the Finance team in conjunction with the Credit Committee and a detailed paper was reviewed by the Audit Committee in February 2023 and was subject to significant discussion.
Climate change		
We have a programme to upgrade the energy efficiency of our older buildings and have considered how the costs of such retro-fitting should be reflected in our financial statements, including our property valuations.	During the year, the Committee sought clarity on how the valuation was impacted by EPC compliance and the cost of converting buildings to meet the Government's proposed 2030 requirements. The Committee also received further updates on the required capital expenditure and how this would be included within the financial statements.	Where any immediate action or expenditure is needed, the relevant amounts would be provided for but these costs are expected to arise over several years as future refurbishment plans are prepared. In many cases, this could add value to the buildings and are not considered to be current capital commitments.
Taxation and REIT compliance		
Should the Group not comply with UK REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime, which would have a significant effect on the financial statements.	As a REIT, the Group benefits from tax advantages. Income and chargeable gains on the qualifying property rental business are exempt from corporation tax. Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. There are a number of tests that are applied annually, and in relation to forecasts, to ensure the Group remains well within the limits allowed within those tests.	The Group employs a qualified and experienced Head of Tax whom the Committee meets at least annually. The Committee noted the frequency with which compliance with the tests and regulations was reported to the Board and considered the substantial margin by which the Group complied. Based on this and the level of headroom shown in the latest Group forecasts, the Committee agreed that, once again, no further action was required.

AUDIT COMMITTEE REPORT continued

INTERNAL FINANCIAL CONTROLS

While Derwent London is a large business in terms of the size of its balance sheet and market capitalisation, we are relatively small when considering the number of people working directly in the business. Our internal financial control structures allow the Company to safeguard its assets, prevent and detect material fraud and errors, ensure accuracy and completeness of its accounting records which are used to produce reliable financial information.

Our procedures consider the risks and scenarios which could result in financial and tax fraud or errors. A risk register is maintained by the Finance team which identifies the key controls in operation to mitigate these risks and identify any residual risk or evidence of weaknesses in the controls.

Overview of internal financial controls

Governance framework	Our governance framework (see page 141) supports effective internal control through an approved schedule of matters reserved for decision by the Board and the Executive Directors, supported by defined responsibilities, levels of authority and supporting committees.
Financial reviews and internal procedures	Comprehensive systems of financial reporting and forecasting which are conducted frequently and include both sensitivity and variance analysis. An annual budgeting exercise is carried out with three rolling forecasts prepared. A five-year strategic review is prepared annually. Breakeven and sensitivity analyses are included in both the five-year strategic review and the rolling forecasts.
Treasury and tax procedures	Treasury is controlled by the Chief Financial Officer and Group Financial Controller. All transactions are checked and monitored. All complex or large transactions are discussed in advance with the Board and Executive Directors and are externally reviewed by our advisers. Taxation is a complex area and is subject to frequent external review. Corporate tax returns are prepared by the Tax Analyst, reviewed internally by the Group Head of Tax and externally by RSM. Other higher risk areas like VAT, PAYE and CIS (the Construction Industry Scheme which requires us to deduct tax at source from the labour element of a subcontractor's invoice unless they are properly authorised by HMRC) is subject to thorough examination and testing. We maintain an open relationship with HMRC and have a 'low risk' tax status. Further information on tax risk and tax governance is on page 67.
Risk identification and monitoring	The Risk Committee regularly reviews the Group's risk registers, the schedule of key controls and key risk indicators. The schedule of key controls provides evidence of how the controls are being operated and their effectiveness. Our risk management procedures are robust and include initiatives such as a 'tenants on watch' register and a back-up IT facility. The Risk Committee's report is on pages 170 to 181.
IT controls	All financial transactions are recorded and, where required, approved utilising finance systems or automated workflows which require dual authentication login. Role-based access is in place for all financial solutions, managed by the Digital Innovation & Technology (DIT) service desk. Data transfers between programs are either automated or imported with minimal manual intervention to maintain the integrity of the data.
Training and staff awareness	Staff are aware of the delegated authority limits set by the Board and confirm their understanding of our internal policies which are contained on our Group intranet and in our employee handbook. Staff have six-monthly performance reviews with any training requirements identified and agreed within six months. The Group operates a whistleblowing policy which includes access to an independent helpline for anonymous reporting of concerns (see page 139).
External verification	The outsourced internal auditors, RSM, perform various assurance reviews as part of the annual Internal Audit Plan. The implementation of recommendations arising from the RSM reviews are monitored by the Audit Committee. The Group's VAT procedures are subject to ongoing periodic review by external advisers. Independent reviews of the Group's financial controls are undertaken with assistance from external advisers, as required. Regular annual credit ratings, including risk assessments, are conducted. Each year, at renewal, a comprehensive review of the Group's insurance cover is prepared by its independent insurance adviser.

The control environment and context in which the internal financial controls operate

- **Company culture:** we have a defined set of values, strategic objectives and practices which has created an environment that values integrity, openness, transparency and building long-term relationships. Our culture promotes collaboration and encourages employees to ask questions and challenge decisions.
- **Lean workforce:** our flat structure and modest headcount (relative to asset values) allows for the close supervision and monitoring by members of the Executive Committee.
- **Group structure:** organised to be relatively simple and transparent with few subsidiaries and joint ventures.
- **Predictable income/costs:** rent, service charge, administrative costs (mainly salaries), interest and other finance costs are predictable. Quarterly management accounts are prepared that analyse income and expenditure and compare them with prior year and budget, with unexpected variances investigated.
- **Predictable capital costs:** the largest costs incurred relate to capital expenditure. All capex on investment properties is approved, and subject to external confirmation, before costs are incurred. These approved budgets are monitored internally.

Strengthening of controls

Actions taken during 2022 have included the following:

- Cyber risk continues to be an area of focus and is subject to independent testing (pages 180 and 181). During 2022, the Digital Innovation & Technology (DIT) team conducted an exercise with GRCI Law which assessed our capability to detect and respond to cyber security incidents.
- Introduced a new electronic expense system to enable automated checking against the Company's travel and expense policy.
- We utilise IT systems and automated workflows to manage our financial processes. All BACS payment files are encrypted on generation and access is monitored by our security systems. During 2022, the Committee received an update on the systems being used by the Finance team.

Non-financial internal controls

As training and staff awareness forms part of the Group's internal control framework, the Risk Committee receives updates on the policies and procedures in place and how these are being communicated to, and complied with, by our staff. Further information on risk management and non-financial internal controls is available on pages 115 and 171.

Effectiveness of the Group's internal financial controls and fraud risk assessment

The Committee receives detailed reports on the operation and effectiveness of the internal financial controls from members of the senior management team and the internal auditors. In addition, the outcome of the external audit at year end and the half-year review are considered in respect to internal controls.

On an annual basis, the Committee reviews the Group's fraud risk assessment prepared by management which details the policies and processes which safeguard the Company's assets, prevent and detect fraud and errors.

The largest costs incurred by the Company relate to capital expenditure or property transactions which are subject to approval in accordance with the Board's delegated authority limits, before costs are incurred (by the Cost Committee for costs up to £5m, the CEO and the Executive Directors for costs up to £20m, and by the Board for any capital expenditure over £20m). Approval is documented in minutes which are required to be seen before the budgets are assigned. The approved budgets are then subject to internal monitoring to ensure they remain within the approved limits.

The risks identified by the fraud risk assessment, in respect to financial fraud and error, are mitigated through the following key controls:

- A two-stage approval process is required for invoices and transactions, either through the use of software or forms. There is a further two-stage approval process for the release of final payments.
- Sufficient support/evidence is required by the Finance team which is subject to validation before payments are made.
- Payroll is prepared by an experienced team and reviewed by the Head of HR and the Group Financial Controller. Payment variance reports are prepared to explain movements.
- Training is provided to staff to ensure they are aware of the latest methods used by those attempting to defraud the Company.
- Use of third parties to produce or review information, including in respect to project monitoring agencies.
- The internal auditors, RSM, provide assurance that controls operate effectively as designed.
- Preparation of a detailed budget and three rolling forecasts against which actuals are compared.
- The process of producing the quarterly management accounts involves detailed variance analysis to prior periods and forecasts, as well as a number of reconciliations of both balance sheet and income statement items.

Following the Audit Committee's and Risk Committee's reviews (see page 171), the Chairs of each Committee confirmed to the Board that it is satisfied that the Group's internal control framework (financial and non-financial) and risk management procedures:

- operated effectively throughout the period; and
- are in accordance with the guidance contained within the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

AUDIT COMMITTEE REPORT continued

ASSURANCE OVER EXTERNAL REPORTING

OUR APPROACH TO ASSURANCE

To keep our shareholders and the wider market informed, we release results on a quarterly basis. Our financial calendar for 2023 can be found on page 315.

Q1	Preliminary announcement and Report & Accounts
Q2	Q1 Business update
Q3	Interim results
Q4	Q3 Business update

All announcements and disclosures are subject to internal verification checks and, where significant or deemed of particular importance to our stakeholders, our actions are independently monitored through third party assurance.

It is crucial that the information we disclose is **relevant, informative and sufficiently transparent**, so that our stakeholders can assess our performance and have **trust** in the **integrity of our reporting**.

Our approach to assurance is influenced by our **low tolerance to risk taking** and our **conservative management style**.

ASSURANCE OVER KEY DISCLOSURES

The table below provides an overview of our key reporting disclosures in the 2022 Report & Accounts and the level of assurance we received. This is in addition to the detailed verification process adopted by the Executive team to ensure the accuracy of our disclosures.

Key reporting risk area	Current level of assurance	Current provider(s)	Further information
Financial statements	International Standards on Auditing (UK) and applicable law	PwC	Pages 242 to 305
Key EPRA financial metrics ¹	International Standards on Auditing (UK) and applicable law	PwC	Page 306
Portfolio valuation	External valuation in accordance with RICS Valuation Global Standards and the Red Book	Knight Frank & PwC	Pages 87 to 89
Key performance indicators ²	Detailed internal review and external assurance on specific KPIs from PwC and Deloitte LLP	PwC & Deloitte LLP	Pages 45 to 49
Environmental, energy and carbon	ISAE 3000 (Revised) and ISAE 3410 'reasonable assurance'	Deloitte LLP	Pages 69 to 71
Task Force on Climate-related Financial Disclosures (TCFD)	Private review	–	Pages 72 to 85
Health and safety statistics	ISAE 3000 (Revised) 'reasonable assurance'	Deloitte LLP	Page 64
Green Finance Framework and disclosures	Our Green Finance Framework received a Second Party Opinion (SPO) from DNV that it is aligned with the Loan Market Association's Extended Green Loan Principles and the International Capital Market Association's Green Bond Principles. Deloitte have also provided reasonable assurance over selected green finance KPI disclosures.	Deloitte LLP & DNV	Pages 106 and 107

¹ EPRA earnings and EPRA NAV metrics (EPRA NRV, EPRA NTA and EPRA NDV).

² The key performance indicators subject to external assurance from Deloitte and audit by PwC are identified on pages 45 to 49.

Assurance over full year results announcement and annual Report & Accounts

Our financial year is the 12 months to 31 December, and we finalise our full year results in late February. The disclosures contained in this announcement form the foundation for our annual Report & Accounts (principally the front end of the Strategic report and financial statements).

Our financial statements are subject to audit by our external Auditor, PricewaterhouseCoopers LLP (PwC) and the entire report is subject to a fair, balanced and understandable review by both the Audit Committee and the Derwent London Board (see page 158). In addition, any key accounting issues or judgements made by management are reviewed and agreed with the Audit Committee.

➤ INDEPENDENT AUDITOR'S REPORT / See page 232

➤ SIGNIFICANT FINANCIAL JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES / See page 159

Valuation of the Group's property portfolio

The main area of reporting risk relates to the valuation of our portfolio. Our property portfolio is valued by external valuers for both our interim and year end results (see page 165). The valuation of our portfolio is a major component of net asset value and is a key determinant for our investors when assessing our performance.

Movements in the valuation are a significant part of how we measure our progress and a key determinant of the Group's total return. Due to its significance, the biannual valuation is also subject to a detailed internal review by our Investment and Valuation team, which consists of experienced and qualified professionals, and is overseen by the Audit Committee.

In accordance with the Group's Valuer Appointment Policy, the Group's external valuer will be tendered at least every five years, subject to annual assessment of their effectiveness and objectivity. Knight Frank succeeded CBRE as the Group's external valuer of the London portfolio in December 2022, after performing 50% of the valuation in June 2022.

Revenue recognition and impairment review

Due to the complexity of accounting for revenue recognition and our expected credit loss (ECL) provision, these disclosures are subject to extensive review by PwC and our internal team.

As at 31 December 2022, our lease incentive and trade debtors, including impairment, amounted to £193.7m (2021 (restated): £173.9m) and an ECL provision of £5.0m has been recorded (2021 (restated): £8.3m) as a provision for bad debts (see pages 251, 268 to 270). Information on how PwC audit revenue recognition and accounting for the ECL provision is available on pages 234 and 235.

Going concern and viability

In order to assure our stakeholders that the Company remains viable for the next 12 months and into the medium term (the next five years), we have provided detailed disclosures on pages 108 to 111. The process and assumptions underlying the short-, medium- and long-term assessments and scenarios, which form the going concern and viability statements, are subject to a detailed review by the Audit Committee and Board. As part of their audit, PwC tested the integrity of the underlying calculations within the going concern modelling, assessed the appropriateness of the key assumptions and agreed the underlying cash flow projections (see pages 237 and 238).

Risks and uncertainties

Our principal and emerging risk registers are regularly reviewed by the Executive Committee and Risk Committee, prior to approval by the Board. As part of our review of principal risks, the Risk Committee utilises a Board Assurance Framework which identifies the key controls for each risk and the level of assurance available.

Environmental, social and governance (ESG)

We understand the importance of clear and accurate reporting of key ESG data to our stakeholders. For a number of years, we have therefore obtained 'reasonable assurance' from Deloitte LLP, as determined by ISAE 3000R (Revised) and ISAE 3410, in respect of our:

- Environmental, energy and carbon reporting (all Scope 1, 2 and 3 GHG emissions data, intensity ratio and energy data)
- Health and safety statistics (all RIDDORs, fatalities, minor accidents, significant near misses, and any enforcement notices data)

The assurance statements are published in our annual Responsibility Reports which are available on our website (the assurance received over our Responsibility Report is detailed on page 164).

We have voluntarily disclosed under the Task Force on Climate-related Financial Disclosures (TCFD) since the 2018 Report & Accounts. As these disclosures are now mandatory, the TCFD disclosures contained in the 2021 and 2022 Report & Accounts were subject to a third party review, with their key recommendations incorporated.

AUDIT COMMITTEE REPORT continued

ASSURANCE OVER EXTERNAL REPORTING continued

Remuneration

Key disclosures in our Remuneration Committee report are subject to independent audit by PwC, including the total remuneration paid to our Directors during the year (see page 213), incentive outcomes under the annual bonus and PSP (pages 215 and 217), our Directors' shareholdings (page 222) and incentive awards (pages 219 to 221).

Our remuneration disclosures are also reviewed by Deloitte to ensure they are aligned with best practice. Deloitte also independently review the executive incentive outcomes under the PSP and annual bonus to provide assurance to the Remuneration Committee that the outcomes have been accurately calculated.

Other annual report disclosures

The rest of our Strategic report and governance disclosures are subject to detailed internal review and verification.

Other key audit matters which, in the Auditor's professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement were:

- Valuation of investment properties
- Revenue recognition
- Accounting for the expected credit loss provision
- Compliance with REIT guidelines
- Valuation of investments in, and loans to, subsidiaries

Information on PwC's audit of these disclosures is provided on pages 234 to 236.

As part of our preparation for preparing this statement, a review of the assurance we receive was conducted in 2021, which identified that the EPRA disclosures published in our annual Report & Accounts were not subject to external verification. Although a peer analysis confirmed that this was frequent practice within our industry, as these are important statistics for our stakeholders, the Audit Committee agreed that for 2022 our key EPRA financial metrics would be subject to audit by PwC and encompassed by their external audit opinion on the annual report. The EPRA financial metrics which have been audited are:

- EPRA Earnings; and
- EPRA NAV metrics: EPRA NRV, EPRA NTA and EPRA NDV.

The Committee will consider whether further assurance is required over our other EPRA disclosures during 2023.

Assurance over half year results announcement

The main risks in relation to half year reporting are the valuation and revenue recognition. In respect to valuation, a similar process to year end is adopted with our investment properties being independently valued which is then reviewed at valuation meetings by the Audit Committee, and approved by the Board.

Although not legally required, our external Auditor performs a review on our half year results announcement. Whilst this is not to the same level of assurance as a year end audit, it does allow an independent review of our half year results announcement and any issues are raised and discussed with the Audit Committee.

Investor presentations

We prepare detailed investor presentations for year end and half year results. A significant amount of information contained in our investor presentations is extracted from results announcements released via RNS. Any additional information is subject to detailed internal review.

Assurance over quarterly results announcement

We provide a market update with portfolio information in April/May and October/November. No financial numbers are provided, nor do we revalue or provide any forecasts in respect to the valuation of our portfolio. Due to the limited information provided, no external assurance is provided or deemed necessary. However, the announcements are subject to significant internal review and verification.

Assurance over annual Responsibility Report and our progress to net zero carbon

We publish an annual Responsibility Report which is structured around our seven key ESG priorities (see page 50). Certain 2022 environmental, health and safety, and community metrics are subject to independent Assurance under ISAE(UK)3000 and ISAE3410. This assurance captures the data we disclose on utility usage, waste generation and energy consumption, in addition to our progress against our science-based targets.

In addition to TCFD (see page 72), we report in accordance with the GRI Standards and the EPRA Best Practices Recommendations on Sustainability Reporting. Disclosures are prepared by the Sustainability team and subject to detailed internal reviews.

Assurance over other reports

There are a limited number of other financial reports provided to external stakeholders. These relate mainly to RNS and press release announcements of transactions. The announcements are subject to internal verification checks to ensure values, rental levels, areas and yields are fairly stated and, where material, are signed off by the CEO and CFO. In relation to acquisitions and disposals, figures are reconciled to cash movements and completion statements.

When reported, rent collection figures are generated internally from daily cash sheets and entered into our property management database. Given the daily nature of this information, and the immateriality of individual amounts, it is not considered practical to seek external assurance in relation to this information.

PORTFOLIO VALUATION

Our property portfolio is valued by external valuers for our interim and year end results. As at 31 December 2022, it was valued at £5.364bn (2021: £5.697bn) and principally consists of 70 properties. Further information on our valuation is on pages 87 to 89.

Knight Frank succeeded CBRE as the Group's external valuer of the London portfolio in December 2022, after performing 50% of the valuation in June 2022. Savills are engaged to value our Scottish land which accounts for c.1% of the Group's portfolio.

In accordance with the Group's Valuer Appointment Policy, the Group's external valuer will be tendered at least every five years, subject to annual assessment of their effectiveness and objectivity. This aspect was one of the areas covered by the RICS 'Independent Review of Real Estate Investment Valuations' performed by Peter Pereira Gray in January 2022. The outcome of this exercise is now under RICS consultation and a formal revised policy is expected later this year. It is anticipated that it will require valuer rotation between five and 10 years.

There are no contractual obligations which could restrict the Group's choice of valuer or a minimum appointment period.

The valuation of the portfolio is a major component of net asset value. Movements in that valuation is a key determinant of the Group's total return (a KPI and a performance measure for our Executive Directors' variable remuneration – see page 205). Due to its significance, the Committee monitors the objectivity and independence of the external valuers' work, and meets with the valuer in February and July, prior to Audit Committee meetings.

Key matters discussed during the meetings in 2022 included:

- The transition in valuers from CBRE to Knight Frank. It was noted that there was no material difference between the valuations.
- The impact of the macroeconomy on the valuation.
- How the valuation was taking into account the costs of converting buildings to meet the proposed 2030 EPC legislation (see page 14) and the impact of other climate change factors.
- The valuation of joint venture properties, which was on the same basis as other Derwent London properties.
- Any valuation movements that were not broadly in line with that of the MSCI benchmark.

The assumptions underlying the valuation are discussed with the external Auditor and an update on the matters discussed at the meetings is provided to the Board.

➤ **IMPACT OF ESG ON VALUATION / See page 158**

Effectiveness of the Group's valuers

A review into the effectiveness of the external valuers is performed after the year end and interim valuations, with assistance from Nigel George, Executive Director. The effectiveness review for 2022 was conducted in February and August and considered the following:

- experience, qualification and objectivity of the valuation team;
- quality of presentation and data; and
- robustness of the valuation.

At both meetings it was concluded that the external valuers performed to a high standard and the timetable for delivery was achieved. As a result of the effectiveness review in August, Knight Frank succeeded CBRE as the external valuer for the December 2022 valuation.

INTERNAL AUDIT

RSM were appointed as the Group's outsourced internal audit function in December 2018 following a competitive tender process and are considered by the Committee to be independent. In addition to performing an internal audit function, another team from RSM also reviews our year end tax returns.

The Internal Audit Plan for 2022 was approved jointly by the Risk and Audit Committees and included a combination of risk-based audits and projects (see the table below). The outcome of the audits were presented to the Risk and Audit Committees and reported to the Board. The Committees were pleased with the level of assurance received from the audits.

The Committee receives a report on internal audit activity at each meeting and monitors the status of internal audit recommendations and management's responsiveness to their implementation. The other Board committees are kept updated on the outcome of any reviews which fall within their areas of responsibility.

Audits performed during 2022	Proposed audits to be performed under the Internal Audit Plan 2023
<ul style="list-style-type: none"> • Health and safety • Cyber security • Strategic planning • Joint venture governance • Financial controls 	<ul style="list-style-type: none"> • Service charge and cost recovery • Intelligent buildings • Energy Performance Certificate (EPC) compliance • Supplier selection and due diligence • Financial, IT and internal controls

AUDIT COMMITTEE REPORT continued

Annual review of the internal audit function

A formal review of the effectiveness of the internal auditor and the internal audit process was conducted in November 2022 and considered the following:

- the qualification and expertise of RSM's team;
- the extent to which RSM have built an understanding of our business and systems;
- depth of internal audits and ability to challenge management;
- quality of reporting; and
- quality of planning and ability to meet deadlines.

The Committee concluded that the internal audit process had been conducted effectively and that the additional assurance received through internal audits had been beneficial to the Committee and management. The Audit and Risk Committees agreed to consider the model for the provision of internal audit services during 2023.

EXTERNAL AUDITOR

The Committee has primary responsibility for managing the relationship with the external Auditor, including assessing their performance, effectiveness, and independence annually and recommending to the Board their reappointment or removal.

The Company has complied with the provisions of the Competition and Markets Authority's order for the financial year under review in respect to audit tendering and the provision of non-audit services. The Committee will be conducting a comprehensive tender process for the 2024 year end audit during 2023.

➤ EXTERNAL AUDIT TENDER / See page 168

Annual review of the external Auditor

The Committee conducts an effectiveness review of the external Auditor on an annual basis which aims to ensure a robust audit is performed, auditor performance is optimised and encourages candid feedback and communication between the Auditor and the Committee. The assessment considered:

- the qualification and expertise of the Lead Audit Partner and the wider audit team;
- the availability of resources to perform a comprehensive and timely audit;
- adherence to the Non-Audit Services Policy;
- quality of the audit plan, overall audit and outcome report;
- quality of planning and ability to meet deadlines; and
- quality of audit in respect of key judgements and estimates.

An important aspect of managing the external Auditor relationship is ensuring there are adequate safeguards to protect Auditor objectivity and independence. In assessing this matter, the Committee considered the following:

- the Auditor's independence letter which annually confirms their independence and compliance with the Financial Reporting Council's (FRC) Ethical Standard;
- how the Auditor demonstrated professional scepticism and challenged management's assumptions, where necessary;
- the tenure of the external Auditor and the Lead Audit Partner;
- the outcome of the FRC's latest inspection of PwC's audit quality; and
- how the Auditor identified risks to audit quality and how these were addressed, including the network level controls the Auditor relied upon.

In assessing how the Auditor demonstrated professional scepticism and challenged management's assumptions, the Committee considered the depth of discussions held with the Auditor, particularly in respect to challenging the Group's approach to its significant judgements and estimates (see pages 159 and 234 to 236). Sandra Dowling has been Lead Audit Partner since the 2020 half year review. The Committee has been pleased with the challenge raised by Sandra and her team during the year.

Audit quality can be challenging to define and measure. The Committee utilises Audit Quality Indicators (AQIs) to assess PwC's audit quality. The Committee finds the use of AQIs an effective addition to its review processes.

After taking all of these matters into account, the Committee concluded that PwC had performed their audit effectively, efficiently, and to a high quality. Accordingly, the Committee has recommended to the Board that PwC be reappointed as Auditor to the Group for the year ending 31 December 2023, subject to reappointment at the 2023 AGM.

The 'Independent Auditor's report to the members of Derwent London plc' is available on pages 232 to 241, and its audit opinion is consistent with the report received by the Audit Committee.

Non-audit services in 2022

The non-audit services provided by PwC during the year under review totalled £622,752. The Committee confirmed that it does not believe that the level or nature of the non-audit services provided during 2022 have impacted on PwC's actual or perceived independence as Auditor.

	2022		2021		2020	
	£'000	%	£'000	%	£'000	%
Audit of Derwent London plc and subsidiaries	559	90	530 ²	78	494	92
Review of interim results	64	10	60	9	44	8
Other non-audit services	–	–	90 ¹	13	–	–
Total fees	623	100	680	100	538	100

¹ During 2021, PwC assisted with the preparation and issue of comfort letters as part of the green bond issuance. The fee for this project was £90,000.

² The audit fee in relation to the year ended 31 December 2021 includes a cost overrun of £59,000.

Non-Audit Services Policy

The objective of maintaining the Non-Audit Services Policy is to ensure the independence of the external Auditor is not compromised and that the provision of such services do not impair the external Auditor's objectivity.

Under the policy, all services provided by the external Auditor (other than the audit itself) are regarded as non-audit services. Our policy draws a distinction between permissible services (which could be provided subject to conditions set by the Committee) and prohibited services (which may not be provided by the external Auditor except in exceptional circumstances when the Auditor has been provided with approval by the Financial Conduct Authority). The type of non-audit services deemed to be permissible includes review of the half year results and assurance work on non-financial data. In accordance with audit legislation, the total fees for non-audit services provided by the external Auditor to the Group shall be limited to no more than 70% of the average of the statutory audit fee for the Company paid to the Auditor in the last three consecutive financial years.

The Committee has provided pre-approval limits which allow management to appoint the external Auditor to conduct permissible non-audit services if they fall below an amount it deems as trivial. The approval limits for non-audit services are provided below and are subject to annual review:

Value	Approval required prior to engagement
Up to £25,000	Chief Financial Officer
£25,000 to £100,000	At least two members of the Audit Committee (including the Committee Chair)
£100,001 and above	Board of Directors

When reviewing requests for permitted non-audit services, the Audit Committee will assess:

- whether the provision of such services impairs the Auditor's independence or objectivity and any safeguards in place to eliminate or reduce such threats;
- the nature of the non-audit services;
- whether the skills and experience make the Auditor the most suitable supplier of the non-audit service;
- the fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the Group audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

In accordance with the FRC Ethical Standard, the Audit Committee would also assess whether it is probable that an objective, reasonable and informed third party would conclude independence is not compromised.

AUDIT COMMITTEE REPORT continued

EXTERNAL AUDIT TENDER

In accordance with current regulation that requires a tender every 10 years, the Committee intends to conduct a competitive tender for the 2024 year end audit during 2023.

Invitation to engage

Ongoing dialogue with our shareholders is important to us and informs the Board's decision making. Lucinda Bell, Audit Committee Chair, invites all shareholders to engage with us as we prepare for the tender process. In particular, we would be keen to receive our shareholders' input on the following matters:

- Firms to be included on the 'Long List';
- Number and size of firms to involve; and
- Factors the Committee should consider when selecting its 'Short List' and making its final recommendation.

Any shareholder who wishes to provide input into the tender, or wishes to receive updates on our progress, can contact the Audit Committee Chair via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or
Email: company.secretary@derwentlondon.com

We request that all shareholders who wish to engage with the Committee during the tender, contact the Company Secretary before the 2023 AGM, on 12 May. This is to ensure their comments are included in the Committee's decision making.

Timetable

PricewaterhouseCoopers (PwC) was appointed as the Group's external Auditor in 2014. In accordance with the Competition and Markets Authority (CMA) order, we are required to conduct a mandatory tender for our audit every 10 years. It is proposed that an audit tender is completed during the second half of 2023, with the appointed (or reappointed) firm in place to carry out the 2024 interim review and year end audit, subject to shareholder approval at the 2024 AGM. Our proposed timetable is below.

Preparation

In preparation for the tender, the Committee has performed the following tasks:

- Reviewed best practice guidelines on external audit tenders;
- Held high level discussions on the attributes and skills we require from our external Auditor and the Lead Audit Partner;
- Agreed a provisional timetable for the tender process and identified the key steps; and
- Agreed that the Committee will seek to include four firms on its 'Long List' to provide sufficient scope for comparisons and breadth.

The Committee will have due regard to the FRC guidance on audit tenders, the independence criteria, and the contents of the recent consultation on the Minimum Standards required of Audit Committees. The Committee's intention is the scope of the tender will be limited to the statutory audit, however, during the Request for Proposals (RFP) stage, the shortlisted firms will be asked to confirm their ESG assurance capability.

Selecting firms to involve

Due to the general shortage of professional resource in the audit industry, the Committee will carefully tailor its 'Long List' to those firms that have the experience, track record and capacity to perform a robust audit.

Outline of the proposed tender timetable



We will seek confirmation of independence from each firm and require them to perform conflict of interest checks. To gain an understanding of the FRC’s assessment of each firm’s audit quality, the Committee will review the latest FRC Audit Quality Reports.

Subject to a satisfactory response to its due diligence, each firm will be asked to present at least two candidates for Lead Audit Partner, who will meet with the Chair of the Committee and CFO. The Committee has considered its requirements and believe that the ideal Lead Audit Partner will have the following skills and experience:

- FTSE 250 experience or larger plc experience;
- deep real estate experience;
- a technically strong track record; and
- ability to demonstrate professional skepticism and to provide independent challenge to provide our Board with confidence.

Request for Proposals (RFP)

In addition to any factors raised by our shareholders, the Committee will consider the adjacent factors when finalising its ‘Short List’. Each shortlisted firm will be invited to meet with members of the Committee, and the senior management team, to aid them in understanding our requirements and preparing their proposal. A data room will also be established. Presentations from each shortlisted firm will be organised for September/October, following which, the Committee will make its recommendations to the Board.

Approach to fees

The Committee’s focus will be on securing a firm who will provide a robust and independent audit. Fees will therefore not be a focus during the ‘Long List’ or RFP stage of the tender. The Committee will only consider fees prior to making its final recommendations to the Board.

‘Short List’ selection criteria:

Capability and competence (including reputation)

- Knowledge and experience, particularly on REIT audits
- Team’s skillset and expertise of the real estate industry
- The firm’s independence, internal quality processes and performance assessed by the AQR

Audit approach

- Clear audit plan based on transparent risk assessment of the business, including:
 - identification and approach to key risks
 - use of specialists
 - audit timing and deliverables
 - communication
 - materiality
- Ability to demonstrate independence and challenge
- Approach to systems and controls reliance and ability to deliver insights and added value
- Plans to use technology to drive efficiency and insight
- Approach to judgemental issues, including timing, use of experts and communication to the Audit Committee
- Clarity on fees, time spent and staffing mix

Alignment with our values

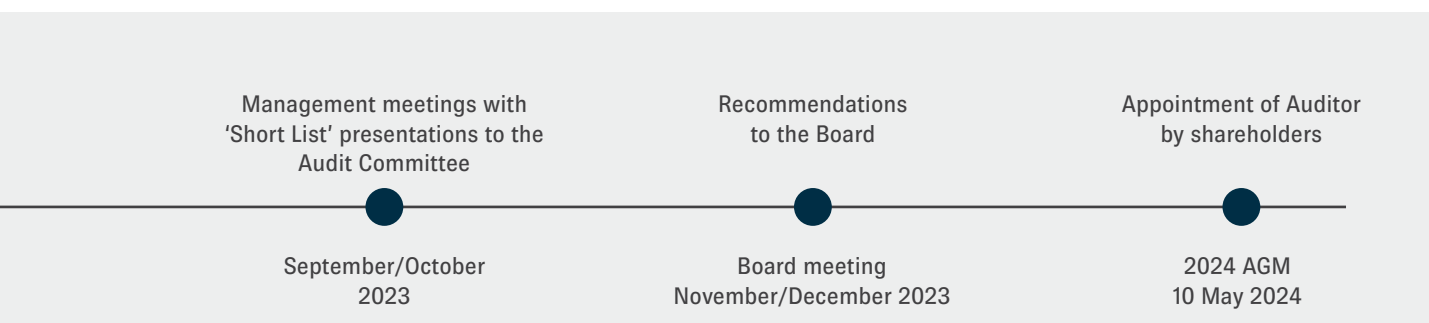
- Culture of the audit firm
- Approach to diversity and inclusion within the firm and audit team
- Ability to build a practical working relationship with management and Audit Committee

Quality of deliverables

- Clarity and conciseness of proposal document and presentation
- Behaviour of team: quality of interaction, organisation and preparation

Approach to transition

- A clear and well thought out transition plan is presented



RISK COMMITTEE REPORT



RICHARD DAKIN
Chair of the Risk Committee

2023 FOCUS AREAS

- Ongoing monitoring of the Group's principal and emerging risks
- Monitor the risks arising from inflation and rising energy costs
- Ensure health and safety risks are being effectively managed across the Group
- Review results of a climate change risk analysis being performed by Willis Towers Watson and the portfolio's compliance with EPC regulations
- Review the outcome of the power rationing tests performed on the managed portfolio and the full disaster recovery test scheduled for Q2 2023
- Continue to receive regular updates on the Group's main development projects

COMMITTEE MEMBERSHIP DURING 2022

	Independent	Number of meetings	Attendance ¹
Richard Dakin	Yes	3	100%
Lucinda Bell	Yes	3	100%
Sanjeev Sharma	Yes	3	100%
Cilla Snowball ²	Yes	2	66%
Helen Gordon ²	Yes	2	66%

¹ Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2022.

² Cilla Snowball was unable to attend the Committee meeting in April due to illness. Helen Gordon was appointed to the Committee from 1 March 2022 and, prior to her appointment, advised the Committee Chair she would be unable to attend the first scheduled meeting in April. Both Cilla and Helen provided the Chair with their comments on the items being discussed at the meeting, which were raised on their behalf.

Dear Shareholder,

I am pleased to present our Risk Committee report for 2022 which describes our activities and areas of focus during the year.

Risk profile of the Group

There has been significant political and economic uncertainty during 2022. The macroeconomic environment has deteriorated with rising inflation, upward pressure on yields and the UK entering a downturn. As a predominantly London-based Group, we are particularly sensitive to factors that impact upon central London's growth and demand for office space.

Although the Group is well-placed to weather the uncertainty due to our strong balance sheet and conservative leveraging, some of our occupiers may face financial difficulty. The occupiers deemed to be most at risk are those which rely heavily on 'footfall' such as retail and hospitality, which make up only 7% of the Group's income. All occupiers, and the wider UK, are being impacted by inflation and rising energy costs. For the Group, this is putting considerable pressure on our service charges (see page 103).

Independent assurance

An important part of our overall risk governance is to review the results of independent reviews on a variety of risks. During 2022, we received the following assurance, in addition to the internal audits performed by RSM:

- **Water hygiene:** Our water hygiene management procedures were independently reviewed and tested.
- **Health and safety:** Outcome of Deloitte's assurance and RSM's internal audit.
- **Climate change:** Interim results of an independent risk assessment of our key climate change-related risks.
- **Cyber incidents:** An independent cyber incident assessment which tested the effectiveness of our procedures (see page 179).
- **Façade and fire safety:** Reviewed the annual Planned Preventive Maintenance surveys and risk assessments.

Further engagement

This will be my last report to you, as I step down as a Director on 28 February 2023. It has been an honour to serve as Risk Committee Chair at Derwent London since August 2014. Helen Gordon, Senior Independent Director, will be your Risk Committee Chair from 1 March 2023. The forthcoming AGM is on 12 May 2023. Helen Gordon will be available to answer any questions on the Committee's activities that you may have. If you wish to contact Helen, she is available via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or
Email: company.secretary@derwentlondon.com

RICHARD DAKIN
Chair of the Risk Committee

27 February 2023

Committee composition and performance

The Committee's membership for the year under review is detailed in the table below. Helen Gordon joined the Committee as a member on 1 March 2022 and will succeed Richard Dakin as Chair of the Committee from 1 March 2023.

In addition to the Committee members, the Board Chairman, other Directors, senior management and the internal or external Auditors, may be invited to attend all or part of any meeting as and when appropriate or necessary.

During the year under review, the Risk Committee met three times (2021: three meetings). The meetings in August and November included a joint session with the Audit Committee to review the outcome of the internal auditor's reviews (see page 165).

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in August 2022, and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

The 2022 evaluation of the Board, its committees and individual Directors was externally facilitated by Manchester Square Partners LLP, in accordance with our three-year cycle of evaluations (see page 149). The review confirmed that the Committee continues to operate effectively, with no significant matters raised.

RISK MANAGEMENT

At Derwent London, the management of risk is treated as a critical and core aspect of our business activities. Although the Board has ultimate responsibility for the Group's robust risk identification and management procedures, certain risk management activities are delegated to the level that is most capable of overseeing and managing the risks.

In order to gain a comprehensive understanding of the risks facing the business and the management thereof, the Risk Committee invites senior managers and external advisers to present at its meetings.

A robust assessment of the principal risks facing the Group is regularly performed by the Directors, taking into account the risks that could threaten our business model, future performance, solvency or liquidity, as well as the Group's strategic objectives over the coming 12 months. Our principal risks are documented in the Schedule of Principal Risks (see pages 116 to 123) which includes a comprehensive overview of the key (financial and non-financial) internal controls in place to mitigate each risk and the potential impact. The Directors also review an assurance framework which evidences how each internal control is managed, overseen and (where appropriate) independently assured.

Due to its importance, changes to the Schedule of Principal Risks can only be made with approval from the Risk Committee or Board (changes made to our principal risks during 2022 are on page 113).

Further information on the Group's risk registers subject to review by the Risk Committee are detailed in the table on page 174.

The Audit Committee reviews the adequacy and effectiveness of the Group's system of internal financial controls which are described briefly in the table on page 160. The Audit Committee remains satisfied that the review of internal financial controls did not reveal any significant weaknesses or failures and they continue to operate effectively.

Following the Audit Committee's and Risk Committee's reviews, the Chairs of each Committee confirmed to the Board that it is satisfied that the Group's internal control framework (financial and non-financial) and risk management procedures:

- operated effectively throughout the period; and
- are in accordance with the guidance contained within the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Related information is on the following pages:

- OUR RISK MANAGEMENT STRUCTURE / See page 176
- INTERNAL FINANCIAL CONTROLS / See pages 160 and 161
- ASSURANCE OVER EXTERNAL REPORTING / See pages 162 to 164

Compliance training

The Group operates a compliance training programme which is mandatory for all employees and members of the Board. The Risk Committee oversees the programme, agrees the topics to be covered and receives an update on completion rates. The programme covers a range of risk and compliance topics (including anti-bribery and corruption, diversity and inclusion, data protection and modern slavery).

At the launch of each training topic, an introductory email is sent to participants advising them of why the training is important and links to further information (including Company policies and guidance notes).

The topics covered over the past two years are:

- insider trading;
- disability awareness;
- modern slavery;
- social media awareness;
- data privacy; and
- unconscious bias/respect in the workforce.

The Committee was pleased with the level of engagement from employees with, on average, c.98% of all participants (inclusive of the Board) completing each training module.

- MODERN SLAVERY / See page 185
- HUMAN RIGHTS / See page 66


RISK COMMITTEE REPORT continued

KEY ACTIVITIES OF THE COMMITTEE DURING 2022

The Committee has focused its attention on a variety of risks within four key categories: our business and clients, economic and political, environmental, and technology. We have identified below some of the Committee's key focus areas during 2022.

Business and clients

- **Development risks:** The Committee regularly reviewed the risk registers maintained for each of our major on-site developments. In addition, the Committee received updates on the wider factors which could impact on our developments, including construction cost inflation, supply chain disruption and material/labour shortages (see page 113).
- **Health and safety:** At each Committee meeting, a detailed update is provided on health and safety matters and identified key risks, both in the managed portfolio and development pipeline. In addition, all Directors were provided with refresher health and safety training.
- **Protocols for appointing contractors:** The Committee received an update on the Health and Safety team's involvement in the Group's development projects from concept design to post-occupancy health and safety evaluations.
- **Water management:** During 2022, our water management procedures were subject to independent review, which confirmed they were robust.
- **Competition risk:** The Committee received assurance that all Derwent London contracts for demolition and asbestos removal have been processed through a rigorous, competitive procurement process, administered by consultants. The Committee was advised that no Derwent London contracts featured in the list of contracts where the Competition Market Authority (CMA) found evidence of collusion.

Strategic objectives: 

Emerging risks: **A**

[➤ See page 124](#)

Principal risks: **1 2 3 5A 5B 5C 7 9A**

[➤ See pages 116 to 122](#)

Technology

- **Cyber security:** Our cyber security controls have been strengthened considerably in recent years in response to the increasing threat this poses to businesses, and it remains an area that the Committee keeps under continuous review (see pages 180 to 181).
- **Disaster recovery:** The Committee was kept apprised on the successful migration of the Company's disaster recovery suite to a new off-site data centre (see page 179).
- **Power shortage:** The Committee received a presentation from Arup on the shortage of electrical power in London. The Committee received assurance that the power allocation and supply for our existing managed portfolio was secure.
- **Power rationing:** Following the warnings issued by The National Grid in respect of potential power cuts, the Risk Committee requested a power rationing test be performed (see page 179) which would feed into the building's infrastructure risk register.

Strategic objectives: 

Emerging risks: **C H**

[➤ See pages 124 and 125](#)

Principal risks: **6A 6B 6C**

[➤ See pages 120 and 121](#)

Key to strategic objectives



TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO



TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES



TO MAINTAIN STRONG AND FLEXIBLE FINANCING



TO GROW RECURRING EARNINGS AND CASH FLOW



TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY

Economic and political

- **Planning risk:** Planning risk is an emerging risk for the Group (see page 125). The Committee requested that at each of its meetings, the Development team provide an update on the progress of planning applications for all major projects via the Committee's key risk indicator schedule.
- **Geopolitical risks:** The conflict in Ukraine, and the international response, has contributed to global supply chain disruption and commodity price inflation. The Committee received updates on the potential impact on our developments, supply chain and managed portfolio. In addition, the Committee received an update on management's procedures to ensure our compliance with sanction lists.
- **Recession risk:** Due to the current economic conditions, some of our occupiers could be facing a more challenging financial situation. The Committee was provided with updates on the Group's current default and arrears position, the level of service charge costs (in particular in relation to utility costs) and how we intend to mitigate the risk of non-recovery.
- **Inflation:** The Committee reviewed the projected impact of inflation on service charges. In addition, the Committee was kept apprised of any budget constraints due to construction cost inflation for our development projects.
- **Interest rates:** The Committee was advised of the impact of rising interest rates on Derwent London. In the short-term the impact will be marginal. At 31 December 2022, all of our debt was at fixed rates and we had £577m of cash and undrawn facilities (excluding deposits).

Strategic objectives:

Emerging risks: **B F**

See pages 124 and 125

Principal risks: **1 2 3 4 5A**

See pages 116 to 118

Environmental

- **Climate change:** The Committee was provided with updates on the progress of Willis Towers Watson's climate risk assessment and temperature scenario analysis. The Committee will review the final report in April 2023.
- **Training:** The Committee joined the Audit Committee for training on climate-related disclosures provided by Deloitte in November (see page 125).
- **Renewable energy:** Renewable energy provision (and related risks) is an emerging risk for the Group (see page 125). The Committee received an update on the availability and cost of sourcing renewable energy.
- **Energy Performance Certificates (EPCs):** The Committee received regular updates on the work performed by the Sustainability, Development and Asset Management teams to upgrade the EPC ratings of our buildings. The Group is fully compliant with the 2023 EPC regulations. The Committee will continue to monitor progress towards the proposed 2030 regulations, which may require a minimum EPC rating of B. During 2022, the Audit Committee considered the impact of ESG credentials and EPC capital expenditure on the valuation (see page 158).

Strategic objectives:

Emerging risks: **D E G H**

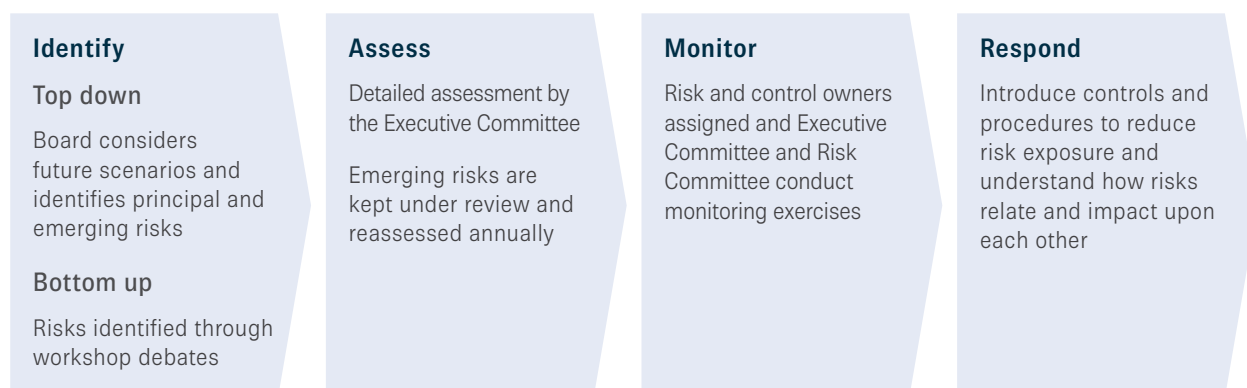
See page 125

Principal risks: **7 8 9B**

See pages 121 to 123

RISK COMMITTEE REPORT continued

RISK MANAGEMENT FRAMEWORK



Risk documentation and monitoring

Schedule of Principal Risks (see pages 116 to 123)	Contains the risks which are classified as the Group's main risks which are currently impacting on the Group or could impact the Group over the next 12 months. The Schedule of Principal Risks includes a comprehensive overview of the key controls in place to mitigate the risk and the potential impact on our strategic objectives, KPIs and business model. The Schedule of Principal Risks also includes an assurance framework to evidence how each control is managed, overseen, and independently verified. As at 31 December 2022, the Schedule of Principal Risks contains 14 risks (2021: 13 risks).
Schedule of Emerging Risks (see pages 124 to 125)	Contains the internal and external emerging risks that could significantly impact the Group's financial strength, competitive position or reputation within the next five years. Emerging risks could involve a high degree of uncertainty. As at 31 December 2022, the Schedule of Emerging Risks contains eight risks (2021: nine risks).
Group Risk Register	Risks not deemed to be principal to the Group are documented within the Group's Risk Register, which is maintained by the Executive Directors, with assistance from the Executive Committee. The Board reviews and approves the Group's Risk Register on an annual basis and it is reviewed by the Risk Committee at each of its meetings. As at 31 December 2022, the Group Risk Register contains 37 risks (2021: 34 risks).
Key risk indicators	The Risk Committee has identified risk areas which could indicate an increase in the Group's risk profile. These indicators are reviewed at each Risk Committee meeting and are compared against the Board's risk tolerance framework (see page 115). Any deviance or significant increase is subject to challenge by the Risk Committee. The risk indicator contains 10 risk areas including cyber security, cost inflation, project status, data protection, and health and safety incidents etc.
Functional/departmental risk registers	Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks, where necessary. These registers are the responsibility of each department and are periodically reviewed by the Risk Committee during risk-specific presentations. Examples of these registers are the development risk registers for each building project and the 'tenant on watch' register.

Risk rating

We operate multiple risk registers depending on their potential impact on the business, from function-specific registers to our Schedule of Principal Risks (see table above). As part of the Directors' assessment process, we estimate the likelihood of the risk occurring and the potential quantitative and qualitative impacts. Risks are rated in accordance with the Board's risk appetite statement.

A simplified version of our risk rating criteria is provided below. Risks which are graded 'red' on a net basis (after mitigation) are included in the Group's Schedule of Principal Risks.

		Impact				
		1. Very low	2. Low	3. Medium	4. High	5. Very high
Likelihood	1. Almost certain					
	2. Highly probable					
	3. Possible					
	4. Unlikely					
	5. Very unlikely					

How do we identify risks?

- **Top down approach to identify the principal risks that could threaten the delivery of our strategy:** at the Board's annual strategy reviews, scenarios for the future are considered which assist with the identification of principal and emerging risks and how they could impact on our strategy. The continuous review of strategy and our environment ensures that we do not become complacent and that we respond in a timely manner to any changes.
- **Bottom up approach at a departmental and functional level:** risks are identified through workshop debates between the Executive Committee and members of senior management, analysis, independent reviews and use of historical data and experience. Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks, where necessary. Risks contained on the departmental registers are fed into the main Group Risk Register depending on the individual risk probability and potential impact.
- **Independent assurance:** the Group's outsourced internal audit function performs reviews of the Group's departments and key activities which provides assurance to the Board and Committee that risks are being identified and effectively managed. In addition, these reviews highlight any recommendations for further action.

How do we assess risk?

Following the identification of a potential risk, the Executive Committee undertakes a detailed assessment process to:

- gain sufficient understanding of the risk to allow an effective and efficient mitigation strategy to be determined;
- allow the root cause of the risk to be identified;
- estimate the probability of the risk occurring and the potential quantitative and qualitative impacts; and
- understand the Group's current exposure to the risk and the 'target risk profile' (in accordance with the Board's risk appetite) which will be achieved following the completion of mitigation plans.

Where necessary, external assistance is sought to assess potential risks and advise on mitigation strategies. Emerging risks are kept under review at each Risk Committee meeting and are reassessed during the Board's annual strategy reviews.

How do we monitor risks?

Once a risk has been identified and assessed, a risk owner is assigned who is considered to be in the best position to influence and implement mitigation plans. In addition, under the Board's assurance framework, a control owner is assigned who can monitor and assess the effectiveness of the controls in place to address each principal risk.

As part of our risk management procedures, the Executive Committee and Risk Committee routinely conduct monitoring exercises to ensure that risk management activities are being consistently applied across the Group, that they remain sufficiently robust and identify any weaknesses or enhancements which could be made to the procedures.

Monitoring activities include:

- the regular review and updating of the Schedule of Principal Risks, Schedule of Emerging Risks and the Group's Risk Register;
- independent third party reviews of the risk management process to provide further assurance of its effectiveness;
- alerting the Board to new emerging risks and changes to existing risks;
- monitoring how the risk profile is changing for the Group; and
- providing assurance that risks are being managed effectively and where any assurance gaps exist, identifiable action plans are being implemented.

How do we respond to risk?

We implement controls and procedures in response to identified risks with the aim of reducing our risk exposure, so that it is aligned or below our risk appetite. The successful management of risk cannot be done in isolation without understanding how risks relate and impact upon each other. At Derwent London, we consider the interconnectivity between risks which allows us to prioritise areas that require increased oversight and remedial action. The mitigation plans in place for our principal risks are described on pages 116 to 123. We use insurance to transfer risks which we cannot fully mitigate.

Related information is on the following pages:

➤ INTERNAL AUDIT / See page 165

➤ EXTERNAL AUDIT / See page 166

➤ ASSURANCE OVER EXTERNAL REPORTING / See page 162

Insurance

Our comprehensive insurance programme covers all of our assets and insurable risks. We are advised by insurance brokers, who provide a report to the Risk Committee on an annual basis. We have a longstanding relationship with our property insurers, who perform regular reviews of our properties that aim to identify risk improvement areas. Due to our proactive risk management processes, Derwent London has a low claims record which makes us attractive to insurers.

RISK COMMITTEE REPORT continued

OUR RISK MANAGEMENT STRUCTURE

On an annual basis the Risk Committee reviews the Group's risk management structure as certain risk management activities are delegated to the level that is most capable of overseeing and managing the risks.

The Board

- Overall responsibility for risk management and internal control
- Sets strategic objectives and risk appetite
- Sets delegation of authority limits for senior management
- Ensures that a healthy purposeful culture has been embedded throughout the organisation (with input from the Executive Directors)
- Agrees the Group's strategy to managing climate change resilience, approving, and monitoring progress against our Net Zero Carbon Pathway (with input from the Responsible Business Committee)
- Manages the internal audit process jointly with the Audit Committee

Risk Committee

- Monitors and reviews the Board's risk registers
- Works alongside the Board to set the risk tolerance levels for the Group
- Receives updates on key risks and monitors the Group's risk indicators
- Determines the nature and extent of the principal and emerging risks facing the Group

In addition to the Risk Committee, the Board's other principal committees manage risks relevant to their areas of responsibility.

Audit Committee	Remuneration Committee	Responsible Business Committee	Nominations Committee
<ul style="list-style-type: none"> • Reviews the assurance received for the information published in our financial statements and key announcements • Manages the external audit process and reviews the internal auditor's reports jointly with the Risk Committee • Monitors the internal financial control arrangements, and satisfies itself that they are functioning effectively, and that corrective action is being taken where necessary 	<ul style="list-style-type: none"> • Ensures that remuneration and reward arrangements promote long-term sustainable performance and retention of key talent • Monitors the incentive framework to ensure it does not encourage Executive Directors to operate outside the Board's risk tolerance 	<ul style="list-style-type: none"> • Oversees the Group's policies in respect of modern slavery, the protection of human rights, achieving our Net Zero Carbon Pathway, and employee satisfaction and wellbeing etc. • Monitors the Group's corporate responsibility, sustainability, and stakeholder engagement activities • Monitors the Group's diversity and inclusion initiatives 	<ul style="list-style-type: none"> • Ensures the Board (and its committees) have the correct balance of skills, knowledge, and experience • Ensures that adequate succession plans are in place for the Board, Executive Directors and the wider talent pipeline

Executive Directors, with assistance from the Executive Committee

- Ensures the design and implementation of appropriate risk management and internal control systems that identify the risks facing the Company and enable the Board to make a robust assessment of the principal risks
- Responsible for internal and external communication on risk management and internal controls
- Maintains the Group's risk registers
- Manages the Group's risk management procedures
- Reviews the operation and effectiveness of key controls

Heads of Department

- Provides guidance and advice to staff on risk identification and mitigation plans
- Engages with the Executive Directors and senior management to identify risks
- Allocates 'risk managers' and oversees their response
- Risk management is devolved to the appropriate level most capable of identifying and managing the risk

Anti-bribery and corruption

We are committed to the highest standards of ethical conduct and integrity in our business practices and adopt a zero-tolerance approach to bribery and corruption. The Company has assessed the nature and extent of its exposure to bribery and corrupt practices and, overall, considers our exposure to be low. To address the risk areas identified, and other risks that may arise from time to time, the Company has established procedures which are designed to prevent bribery and corrupt practices from occurring. An overview of our policies and procedures in this area is contained in the table below.

The greatest potential risk area for Derwent London is in respect of our long supply chains. Our zero-tolerance approach is communicated to all of our suppliers, contractors and business partners. Before we enter into a new business relationship, our due diligence procedures determine if a third party has previous convictions under the Bribery Act. All contracts with suppliers or contractors prohibit the payment of bribes, or engaging in any corrupt practice, and we have the right to terminate agreements in the event a bribe is paid or other corrupt practice undertaken.

During 2023, the Group's anti-bribery and corruption procedures will be subject to review and all employees (including the Board) will receive refresher training on anti-bribery and corruption as part of the mandatory compliance training programme (see page 171).

Policy and procedures:

Corporate hospitality	Hospitality must be reasonable in value, appropriate to the occasion and provided openly and transparently. It must not compromise, nor appear to compromise, the Group nor the business judgement of our staff.
Business gifts	Generally, gifts should not be accepted unless valued at less than £50, are not cash or a cash equivalent (e.g. gift certificate), are appropriate to the circumstances and are not given with the intention of compromising or influencing the party to whom it is being given.
Hospitality and Gift Returns	All staff are required to complete quarterly Hospitality and Gift Returns which document all instances of third party hospitality or gifts (given or received) over that three-month period if the value is in excess of £50 for hospitality and £10 for gifts. The Hospitality and Gift Returns are subject to review by the Risk Committee.
Political donations	The Company strictly prohibits any political donations being made on its behalf.
Charitable donations	Charitable donations are handled by the Sponsorships and Donations Committee. 'Know your client' procedures are applied to charitable organisations to ensure we are dealing with a valid body acting in good faith and with charitable objectives.
Contractors and suppliers	As detailed above.
Supply Chain Responsibility Standard	Contains the minimum standards we expect from our major suppliers (further information on page 185).
Payments	All payments made must be warranted, transparent and proper. All payments must be accurately recorded through the normal accounting and financial procedures without any deception or disguise as to the recipient's identity or the purpose of the payment in question. No one approves their own expense claim. All expense claims must be approved by a Director or senior manager.
Facilitation payments	Facilitation payments are bribes and are strictly prohibited.
Conflicts of interest	All conflicts of interest or potential conflicts of interest must be notified to the Company Secretary and a register of such notifications is maintained. The Corporate Governance statement on page 146 explains our process for managing potential conflicts.
Training	We provide our employees with guidance notes and regular training on anti-bribery, corruption, ethical standards and the prevention of the facilitation of tax evasion.
Whistleblowing procedures	A confidential helpline is available for staff to report concerns anonymously (see page 139).

RISK COMMITTEE REPORT continued

BUSINESS CONTINUITY AND DISASTER RECOVERY

Our last full disaster recovery test was successfully completed on 25 June 2021. This included a failover of all critical IT infrastructure to our disaster recovery suite and all business applications were tested. The entire process, from the failover to our disaster recovery suite, to restoring services at 25 Savile Row, took six hours and 25 minutes (a 20-minute improvement on our previous full test completed in October 2018). The next full disaster recovery test is scheduled to take place in Q2 2023.

The strength of our business continuity and disaster recovery plans are regularly tested to ensure they are continually refined and to reduce the potential for failure. An overview of the disaster recovery tests due to take place during 2023 are provided in the table below.

Derwent London has formal procedures for use in the event of an emergency that disrupts our normal business operations which consist of:

Business Continuity Plan (BCP)

The BCP serves as the centralised repository for the information, tasks and procedures that would be necessary to facilitate Derwent London's decision making process and its timely response to any disruption or prolonged interruption to our normal activities. The aim of the BCP is to enable the recovery of prioritised business operations as soon as practicable.

Crisis Management Team (CMT)

The CMT is composed of key personnel deemed necessary to assist with the recovery of the business. The BCP empowers the CMT to make strategic and effective decisions to support the recovery of the business until we are able to return to normal working.

Off-site disaster recovery data centre

An off-site disaster recovery data centre is available in the event of an emergency, to provide continued access to IT services and data to our staff.

Testing and review

The strength of our business continuity and disaster recovery plans are regularly tested to ensure they are continually refined and to reduce the potential for failure.

Disaster recovery tests in 2023

Test	Purpose	Date
IT component test	A technical test of the individual components required to carry out a failover of IT services to our disaster recovery data centre.	Q1 2023
Business Continuity Plan review	The CMT team meets regularly to review and update the business continuity plan and cascade list, review current threat levels and agree on any action points.	Q2 2023
Full IT disaster recovery test	A full IT systems failover from our 25 Savile Row office to our disaster recovery data centre and testing that all IT functions and business-related activities can be adequately performed.	Q3 2023
Tabletop exercise	A tabletop group exercise to review our incident response procedures and rehearse various disaster recovery scenarios to ensure we are adequately prepared.	Q4 2023

POWER RATIONING

During 2022, due to the energy crisis faced by the UK, The National Grid announced the possibility of a power rationing programme being introduced across the UK which could result in rolling three-hour power cuts. Implementation of any such programme would be linked to cold weather events, availability of gas imports and production of renewable energy within the UK. Whilst considered unlikely to occur, the Risk Committee requested that the Property Management team conduct power rationing scenarios based on a total loss of power to test our portfolio business continuity plans.

Controlled electrical shutdowns were undertaken across the entire managed portfolio to test our systems' resilience and the outcomes captured and recorded. The testing covered all operational aspects of the building, with specific attention to life safety systems, loss of communications and security protocols.

Following completion of the shutdowns, disaster recovery plans were prepared specific to each site, and shared with occupiers, setting out the procedures to be followed in the event of power loss. It was agreed that a shortage of electrical power, and the risk of power rationing, was unlikely to have a significant impact on the Group's portfolio.

➔ SHORTAGE OF ELECTRICAL POWER / See page 125



DISASTER RECOVERY CENTRE

During 2022, our disaster recovery suite was successfully migrated to a new off-site data centre. As a result, our Disaster Recovery Plan was updated and we performed technical tests to ensure the resilience of our IT infrastructure.

The new data centre benefits from:

100%
uptime record

100%
renewable energy

Fully accredited

with ISO 27001, Cyber Essentials Plus and PCI DSS



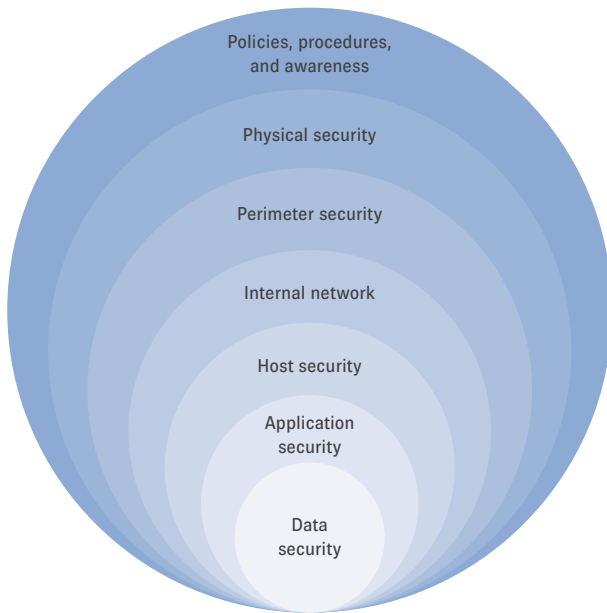
Members of the Digital Innovation & Technology team

RISK COMMITTEE REPORT continued

DIGITAL SECURITY RISKS

Cyber security

We adopt a layered approach to cyber security which provides multiple opportunities for threats to be identified before they can cause harm. Our layered security approach consists of the following:



Our cyber security procedures are subject to regular independent reviews and tests, which are presented to the Risk Committee, which monitors the implementation of any arising actions (see case study on page 181). In addition, PwC conducts annual IT control audits and RSM, our outsourced internal audit function, audited our cyber controls.

In February, our Digital Innovation & Technology (DIT) team provided additional awareness training to all staff in preparation for a potential increase in attacks arising from the conflict in Ukraine. In response to the NCSC's advice for organisations to improve their resilience with the cyber threat heightened, a number of additional controls were implemented to bolster our defences and improve our capability to detect and respond to cyber security incidents. Throughout the month of October, our DIT team also promoted Cybersecurity Awareness Month by sharing weekly cyber security themed emails with tips and guidance, posters and a quiz.

Related information is on the following pages:

- CYBER-RELATED PRINCIPAL RISKS / See page 120
- TECHNOLOGY-RELATED EMERGING RISKS / See page 124

Key performance indicators (KPIs)

The Committee reviews a dashboard of key risk indicators at each meeting which includes information security and cyber risk-related KPIs. During 2022, there was a 36% decrease in the total number of potential attacks when compared to 2021, none of which resulted in a security incident. 99.97% of the attempts were stopped before they reached the intended targets, with the remaining attempts immediately being reported to our DIT team. This highlights the robustness of our cyber security posture and awareness campaigns.

Information security

We have robust procedures in place to safeguard the security and privacy of information entrusted to us. As part of the Committee's key risk indicator schedule, we monitor the number of 'near miss' data breaches due to policy deviations and how these have been addressed. Our procedures ensure that we:

- maintain the confidentiality, integrity and availability of data and safeguard the privacy of our customers and employees, to ensure that the business retains their trust and confidence;
- protect the Group's intellectual property rights, financial interests and competitive edge;
- maintain our reputation and brand value; and
- comply with applicable legal and regulatory requirements.

We operate a Data Protection Steering Committee which meets on a quarterly basis and is comprised of Data Protection Champions from each department. The Committee receives annual updates on the work being performed.

Our DIT team routinely conducts supplier information security due diligence assessments as part of the on-boarding process for all new suppliers of digital services to help provide assurance on the security posture of our suppliers and reduce the risk of supply chain attacks.

Data Protection Impact Assessments (DPIAs) are also completed for any new projects or changes to processes that involve data processing, to help identify and mitigate any data privacy risks.

DIGITAL STRATEGY RISKS

The digital risks relating to our strategy are currently low as our reliance on data to operate our core business is minimal. As we increase the digitalisation of our business model, through our Intelligent Buildings Programme, our potential exposure will increase. A cyber attack on our buildings has been identified as a principal risk for the Group, and our key controls are detailed on page 120.

Intelligent Buildings Programme

In alignment with our strategy and purpose, the Derwent London Intelligent Buildings Programme seeks to enable our buildings to be digitally monitored and operated more efficiently, driving down equipment faults (and consequential maintenance) and delivering energy and operational carbon savings. During 2022, the Executive Committee monitored the phased roll out of the Intelligent Buildings Programme. The Committee will be kept updated on progress and its success. The key indicators of success will be the cost savings to our occupiers (due to early fault detection) and the operational carbon savings for our occupiers and Derwent London.

The main challenges which have been encountered during the initial roll out of the programme are network readiness in buildings, building remedial work and upgrades, and the need for additional building manager training. The DIT team are supporting the programme by:

- working alongside external advisers to compile risk registers for each building in our portfolio, in respect to their cyber security resilience. The review will identify whether there are risks outside of the Board's tolerance which will require rectification; and
- identifying how data can be collected from the Intelligent Buildings Programme and made available on our tenant portal to enable our occupiers to have greater access to information on their spaces.

Related information is on the following pages:

- NET ZERO CARBON / [See page 27](#)
- ENGAGEMENT WITH OUR OCCUPIERS / [See page 142](#)



The Featherstone Building EC1 – our first Intelligent Building

CYBER SECURITY: OUR CAPABILITY TO DETECT AND RESPOND

During 2022, we conducted a cyber incident response tabletop exercise which was independently reviewed to assess our ability to detect and respond to a given cyber security incident.

The review tested various scenarios which enabled the Digital Innovation & Technology (DIT) team to apply their 'playbooks' and identify potential improvements. The external assessor confirmed that we have sufficient technical capability in place to deal with the given scenarios and robust infrastructure that should prevent and/or detect cyber attacks.

“Derwent London have sufficient technical capability in place to deal with these scenarios. Employees are regularly trained in cyber security and know how to raise a cyber security issue to the technical teams. Those that attended the tabletop approached the scenarios in a logical manner.”

Quote from independent external assessor
Extract from CIR Report

RESPONSIBLE BUSINESS COMMITTEE REPORT



DAME CILLA SNOWBALL
Chair of the Responsible Business Committee

2023 FOCUS AREAS

- Commence work with the Business Disability Forum to help improve business practices
- Ensure adherence to the Group's Net Zero Carbon Pathway and receive regular updates on progress
- Continue to monitor the Group's community, charitable and sponsorship initiatives
- Review the composition of the Committee's employee members during Q2 2023, in advance of Davina Smith reaching her three-year term in December 2023

COMMITTEE MEMBERSHIP DURING 2022

	Independent	Number of meetings	Attendance ¹
Cilla Snowball	Yes	2	100%
Claudia Arney	Yes	2	100%
Matt Massey	Employee	2	100%
Davina Smith ²	Employee	2	100%
Lucy Taylor	Employee	2	100%
Kirsty Williams	Employee	2	100%
Paul Williams	No	2	100%

¹ Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2022.

² The composition of the employee members will be reviewed during Q2 2023 as Davina Smith comes to the end of her tenure on the Committee.

Dear Shareholder,

As the Chair of the Responsible Business Committee, I am pleased to present our report of the work of the Committee for 2022. I would suggest that this report is read alongside the Responsibility section on pages 50 to 85.

Engagement with our stakeholders

Building long-term relationships with our stakeholders is essential to the delivery of our strategy. The Committee has continued to examine the detail of our activities and engagement with employees, communities, occupiers and suppliers.

Over the year, the four employee Committee members have worked hard to address the priority areas identified in the 2021 Employee Survey. As a result, an employee hub was approved to signpost training and development, along with allyship training, a new Smart Working Policy and a range of wellbeing sessions on sleep, menopause, mental health awareness and men's health.

We were pleased to see that the 2022 'pulse survey' showed improved, and consistently high, employee engagement levels across all metrics, with 91% of employees saying they are 'proud to work at Derwent London'.

The Committee received regular updates on the excellent community engagement work that has been undertaken over the year, including the Community Fund, sponsorships and donations, staff volunteering and social value impact measurement. A review of the Supply Chain Responsibility Standard was undertaken, and policies and procedures on the prevention of modern slavery were shared, with training. The Committee recognises that the 'cost of living' challenges are impacting all of our stakeholders, and the Committee is sensitive to the risks, and the need for responsible mitigations.

Diversity and inclusion

The Committee received regular updates from the Diversity and Inclusion Working Group (the 'D&I Working Group') on its activities and discussions. With full National Equality Standard accreditation, we were pleased to see the further work being undertaken on disability awareness, including membership of the Business Disability Forum, which will audit and assess inclusion across our business. The Committee also reviewed the latest report issued by the Parker Review Committee on ethnic diversity. Participation in the 10,000 Black Interns programme in 2022 provided reverse mentoring, work experience and apprenticeships.

Employee members

The four employee members of the Committee continue to add enormous value to our discussions and outputs, and we thank Davina Smith, Matt Massey, Lucy Taylor and Kirsty Williams for their hard work and contributions. In particular, their work on the Employee Survey has ensured areas of particular interest and priority to staff can be quickly turned into action, strengthening our employee engagement overall.

Net zero carbon

The Committee received regular updates on the Group's progress towards being net zero carbon by 2030, including energy saving measures across the portfolio and engagement with occupiers on a range of matters including 'Green Forums', energy usage data, planning assumptions and climate change risk.

Further engagement

If you wish to discuss any aspect of the Committee's activities, I will be available at the 2023 AGM and would welcome your questions. I am also available via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or
 Email: company.secretary@derwentlondon.com

DAME CILLA SNOWBALL
 Chair of the Responsible Business Committee
 27 February 2023

Committee composition and performance

During 2022, our Committee consisted of two independent Non-Executive Directors, the Chief Executive and four employee members. At the request of the Committee, members of the Executive Committee, senior management team, other Board members and external advisers may be invited to attend all or part of any meeting, as and when appropriate.

During the year under review, the Committee held two formal meetings (in May and December) (2021: two meetings). In addition to the formal meetings, the Committee holds ad hoc informal meetings. The Chair of the Committee is also the Group's designated NED for gathering the views of our workforce (see page 145).

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in May 2022 and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

The 2022 evaluation of the Board, its committees and individual Directors was externally facilitated by Manchester Square Partners LLP, in accordance with our three-year cycle of evaluations (see page 149). The review confirmed that the Committee continues to operate effectively, with no significant matters raised.

KEY ACTIVITIES OF THE COMMITTEE DURING 2022

The Committee continued to strengthen the Board's oversight of environmental and social issues, and monitored the Group's corporate responsibility, sustainability and stakeholder engagement activities.

During 2022, the Committee's keys activities were:

Responsible business

- Revised the Group's Code of Conduct & Business Ethics
- Reviewed the Supply Chain Responsibility Standard to ensure continued validity following 2021 publication
- Reviewed the Group's modern slavery practices as well as the 2022 Modern Slavery Statement

Stakeholder engagement

- Received regular updates on our community initiatives and engagement (see page 57)
- Reviewed the feedback from the employee and occupier 'pulse surveys' (see pages 59 and 94)
- Received an update on how management are addressing the recommendations arising from the 2021 Employee Survey (see page 59)

Diversity and inclusion

- Committed to becoming a member of the Business Disability Forum
- Received regular updates on the D&I Working Group and its activities and discussions (see page 186)
- Reviewed the latest report issued by the Parker Review Committee on the progress towards ethnic diversity
- Responded to employee feedback from the 2021 Employee Survey by introducing a 'reverse mentoring' initiative in the 10,000 Black Interns programme (see page 60)

Employees

- Approved the creation of an 'employee hub' to provide easy access to information on training and development opportunities, in addition to the intranet
- Arranged interactive allyship training for management to create an even more inclusive and supportive working environment
- Approved a re-branded Smart Working Policy, which was well received by employees

Net zero carbon

- Monitored our progress to net zero carbon (see page 52)
- Reviewed Derwent London's involvement in COP26 and assessed key takeaways
- Received a verbal update on climate change risk

RESPONSIBLE BUSINESS COMMITTEE REPORT

continued

EMPLOYEES ON THE RESPONSIBLE BUSINESS COMMITTEE

The employee members are fully engaged in all aspects of the Committee's activities. Additionally, they extend the Committee's influence by meeting regularly with the HR team to review initiatives and provide six-monthly updates to the Executive Committee and wider workforce.

During 2022, they participated in the Employee Survey Working Group meetings, which review the results of the latest Employee Survey and propose recommendations to the Executive Committee to address areas of particular interest or concern for staff (see page 59).

Davina Smith

Property Accounts Manager

Joined Derwent London in June 2015

Appointed to the Committee: October 2020

Expected term expiry: December 2023

Matt Massey

Head of Project Management

Joined Derwent London in March 2014

Appointed to the Committee: January 2022

Expected term expiry: December 2024

Lucy Taylor

Investment Manager

Joined Derwent London in March 2019

Appointed to the Committee: January 2022

Expected term expiry: December 2024

Kirsty Williams

Associate, Property Management

Joined Derwent London in February 2007

Appointed to the Committee: January 2022

Expected term expiry: December 2024

“It is a privilege being an employee member of the Responsible Business Committee. I appreciate the opportunity to contribute to meaningful Board discussions on behalf of my colleagues. Responsible Business Committee meetings are also a reminder of the positive impact Derwent London strives to make to local communities through our social and environmental initiatives.”

DAVINA SMITH

Property Accounts Manager

Employee member of the Responsible Business Committee



Committee employee members

SUPPLY CHAIN RESPONSIBILITY STANDARD

The primary purpose of the Supply Chain Responsibility Standard (the Standard) is to clearly set out our principles and expectations in terms of the environmental, social, ethical and governance issues which relate to our supply chains.

All suppliers with whom we spend more than £20,000 per annum are required to comply with, and provide evidence of how, they are implementing the Standard. Those suppliers with whom we spend less than £20,000 will still be expected to identify and address any significant risks areas which we identify via an ESG risk analysis, last conducted in Q4 2022.

During 2022, a review was conducted to ensure the Standard remains valid following the publication of the revised version in August 2021, which is available to view on our website.

Biennially we request evidence that our major suppliers are compliant via a questionnaire. This extends beyond basic compliance and requires our suppliers to advise how they are embedding best practice into their working practices. During 2023, we will seek assurance that our suppliers have:

- An equality, diversity and inclusion policy that aligns with the Equality Act 2010 and is communicated to all staff.
- A policy to ensure that bullying, harassment, and discrimination (based on all protected characteristics) is not tolerated.
- A modern slavery policy that addresses items raised in the Modern Slavery Act 2015 and training is provided on the subject to all staff.

Following our review, all suppliers who have not confirmed compliance with our Standard will be contacted.

Responsible payment practices

Derwent London is a signatory to the Chartered Institute of Credit Management (CICM) Prompt Payment Code, which confirms our commitment to best practice payment practices and the fair and equal treatment of our suppliers.

Unless otherwise agreed, we aim to pay our suppliers within 30 days or otherwise will do so in accordance with specified contract conditions. We expect our suppliers to adopt similar practices throughout their supply chains to ensure fair and prompt treatment of all creditors.

In 2022, our average payment term was 22.6 days, which continues to remain below our payment terms of 30 days.

MODERN SLAVERY

We endeavour to ensure that the risk of modern slavery and human trafficking occurring in any of our activities, our supply chains or in any part of our wider business is reduced as much as possible. As a result of wider factors, such as inflation and recession, many of the underlying causes of modern slavery such as poverty, inequality and unemployment have worsened.

During 2022, we continued to identify and implement ways to strengthen our policies and procedures in respect of the protection of human rights and prevention of modern slavery. Modern slavery issues and updates were included on the agenda of our ongoing Principal Contractor Customer Improvement Groups led by the Health and Safety team. Refresher training was also provided to all employees (including the Board) on how to identify modern slavery risks in the supply chain.

Risk	The potential greatest risk exists in the supply chains of our construction contractors as well as the property management suppliers and maintenance contractors used in our buildings, which include cleaning and security services.
Governance	We require our suppliers to adhere to our Supply Chain Responsibility Standard which requires, as a minimum, that suppliers comply with the Modern Slavery Act 2015. In addition, we expect suppliers to provide modern slavery training to employees, and have provisions in place that endeavour to ensure their supply chain also adheres to the Act.
Policies	We have a number of internal policies that promote our culture and expected behaviours in accordance with the Act's objectives. This includes our newly revised Code of Conduct & Business Ethics.
Engagement	We are clear on our zero-tolerance position and all suppliers receive Derwent London's latest modern slavery statement. Similarly, modern slavery statements are obtained from all suppliers. We expect our main contractors to conduct due diligence within their supply chains to ensure that the risk of modern slavery or human trafficking occurring is checked and minimised.
Effectiveness	All new starters are required to complete a 'core skills' programme which includes training on modern slavery. Ongoing training initiatives and our mandatory compliance training programme ensures that employees are kept up to date with the latest requirements.

Our latest Modern Slavery Statement is available on our website: www.derwentlondon.com/investors/governance/modern-slavery-act

RESPONSIBLE BUSINESS COMMITTEE REPORT

continued

DIVERSITY AND INCLUSION

Having a diverse, highly talented and skilled group of employees at all levels in Derwent London is vital to the successful delivery of our strategy and long-term business performance. Diversity and inclusion brings new ideas and fresh perspectives which fuel innovation and creativity.

We are founding supporters of Real Estate Balance and we are members of the City Women Network (CWN) which provides membership to all our senior female employees.

The Diversity and Inclusion Working Group

The Diversity and Inclusion Working Group (the 'D&I Working Group') consists of 13 members and meets monthly to discuss the progress being made towards the Group's diversity and inclusion vision, strategy and KPIs.

Throughout the year, Executive Directors and/or Heads of Departments are invited to join the D&I Working Group's meetings, which provides insights into the diversity and inclusion initiatives being discussed. Management receive an understanding of what the D&I Working Group are aiming to achieve and offer support through a top down approach.

The Committee received updates on the work of the D&I Working Group at each meeting, during 2022 this included:

- **Levelling up:** As part of the 10,000 Black Interns programme, four interns joined Derwent London on a six-week placement, rotating around the business and portfolio. Positive feedback was received from the trial of reverse mentoring between the interns and members of the Executive Committee (see page 60). Through our work experience scheme, we continue to offer opportunities to a broad range of students from varying socio-economic backgrounds, ethnicities, and genders.
- **Training:** All Heads of Departments attended a presentation on allyship and inclusion by the founder and CEO of We Rise In, Faith Locken. Mental health awareness training was offered to all employees with four workshops being run as well as an online session. The Group continued their work with Chickenshed providing unconscious bias training to employees.
- **Communication:** We increased the use of our social media channels to communicate the D&I strategy and initiatives to all stakeholders. The Group has also been contacted by a number of businesses to share how we achieved all 35 competencies of the National Equality Standard in 2021.

In 2023, the D&I Working Group will be rotating its members and continue to raise awareness of all aspects of diversity, inclusion and equality and work to further embed our 2022 initiatives including signing up to the Business Disability Forum from 1 March 2023.

Diversity key performance indicators (KPIs)

The Board receives updates on our diversity focus areas including the following diversity KPIs:

51.0%

total number of female employees as at 31 December 2022

48.9%

of new recruits during 2022 were female

35.6%

of new recruits during 2022 were from an ethnic minority group

77.3%

of new female recruits during 2022 were for professional or managerial roles*

50.0%

of ethnic minority recruits during 2022 were for professional or managerial roles*

*excludes administrative and support roles

➤ MORE ON DIVERSITY AND INCLUSION / See page 60

➤ BOARD'S APPOINTMENT POLICY / See page 154

Diversity focus areas

The Board has established clear focus areas which aim to build an inclusive culture that promotes, encourages and celebrates the importance of diversity and inclusion at all stages from attracting diverse and talented individuals through to retention and career opportunities. Ensuring sufficient attention is being given to diversity in its fullest consideration continues to be the key focus area.

Focus	Actions taken during 2022	Further actions required in 2023
<p>Attracting diverse, highly skilled and talented employees</p> <ul style="list-style-type: none"> • Tackle any unconscious bias. • All shortlists to have due regard for diversity considerations (not limited to gender and ethnicity). • Recruit from a wide pool of talent (including women returning to work). 	<ul style="list-style-type: none"> • Worked closely with recruitment consultants to ensure diversity shortlists are received for every vacancy. • Promoted the achievement of the National Equality Standard through our website, social media and during the recruitment process. • Ongoing recruitment log to ensure that the data and demographics are analysed within a recruitment process including candidate pool, interview pool and hires. • Increased use of our social media channels with a focus on actively promoting ourselves as an employer that embraces diversity, equality and inclusivity. • Continued with our compulsory unconscious bias training alongside Chickenshed for all employees. 	<ul style="list-style-type: none"> • Continue with current initiatives including our social responsibility messaging, communicating our culture and inclusive values to the market. • Continue to make it a requirement for recruitment consultants to provide a diverse pool of candidates. • Sign up to the Business Disability Forum (from 1 March 2023) and complete the Smart Audit.
<p>Retaining the best talent</p> <ul style="list-style-type: none"> • Focus on women returning to work. • Promote the importance of Smart Working. • Equal opportunities for all. 	<ul style="list-style-type: none"> • Hosted our third employee awayday to build relationships and encourage collaboration. • Held an inclusive management session with Heads of Departments. • Continued with parental transition coaching for those returning from a period of extended leave. • Strong focus on supporting health and wellbeing. • Launched our new Smart Working policy. • Core Skills sessions and technical workshops continued. • Rolled out mental health awareness training for all employees, mental health and sleep, menopause and men's health sessions. • Ran a number of inclusive social events for all employees. • The importance of diversity, equality and inclusion was emphasised in our induction programme by our CEO. 	<ul style="list-style-type: none"> • Continue to focus on mental health and wellbeing. • Analyse and digest the feedback from the October 2022 employee 'pulse survey' and explore recommendations and actions. • Further training for all line managers including coaching conversations, personal development plans and leading an inclusive team. • Roll out our fifth full Employee Survey run by an independent provider. • To review the performance appraisal process, succession plans and career development opportunities that have been identified for all employees.
<p>Promoting diversity</p> <ul style="list-style-type: none"> • Gender balance within our internships and work experience placements. • Aim to encourage more females to be interested in the construction and property industry and challenge harmful gender stereotyping. • Heads of Departments to demonstrate that we are an inclusive employer. 	<ul style="list-style-type: none"> • Hosted four interns under the 10,000 Black Interns programme in the Summer of 2022. • Arranged work experience placements from a variety of backgrounds/disciplines. • Our monthly town hall meetings, hosted by our CEO, focused on diversity and inclusion on a regular basis. • Our intranet and screensavers continued to create and encourage discussion and awareness on diversity and inclusion e.g. recognising and celebrating Black History Month, religious holidays, Menopause Awareness Day, national campaigns etc. • All employees attended compulsory compliance training on disability awareness. • Working with Pathways to Property. • The D&I Working Group has continued to meet monthly and shared best practice with other companies. • Engaged with external D&I specialist to ensure best practice continues. 	<ul style="list-style-type: none"> • Continue to participate in careers and volunteering events during 2023. • Continue to have gender and ethnic balance within our internships and work placements. • Continue with training on diversity and inclusivity e.g. allyship. • Continue to use the town hall meetings, intranet, email and guest speakers to keep diversity and inclusivity initiatives high on the agenda highlighting one D&I related event/communication per quarter. • Continue to engage with and learn from external specialists.

RESPONSIBLE BUSINESS COMMITTEE REPORT

continued

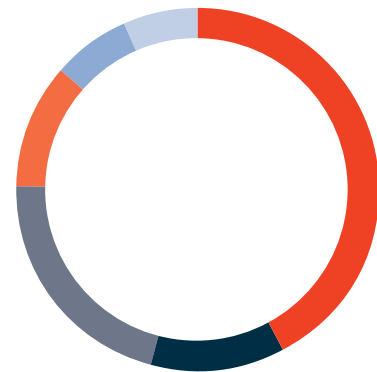
THE GROUP'S COMPOSITION AND DIVERSITY

The information below provides a breakdown of our diversity as at 1 January 2023. Further information on the Board's composition as at 1 January 2023 is shown on page 147. The variance between genders in responses to employee surveys is taken into account by the Remuneration Committee when determining the annual bonus payout for Executive Directors in relation to the staff satisfaction metric (see page 216).



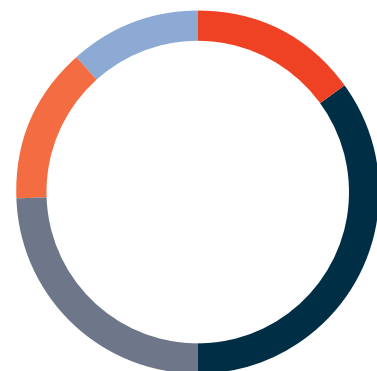
Headcount by department

Number	
11	Board of Directors
18	Asset Management
7	Company Secretarial & HR
17	Development
8	Digital Innovation & Technology
21	Finance
7	Health & Safety
8	Investment
6	IR & Corporate Communications
12	Leasing & Property Marketing
11	Operational Support
52	Property Management
6	Sustainability



Length of service

Years	
Under 3	78
3-5	22
5-10	39
10-15	20
15-20	13
20+	12



Employees by age

Years	
20-29	28
30-39	64
40-49	45
50-59	26
60+	21

Gender diversity and ethnic origin

	Total employees ¹		Executive Committee & its direct reports ²		Board ³		Senior positions on the Board ⁴
	Number	%	Number	%	Number	%	Number
Gender⁵							
Men	90	49.0%	35	49.3%	6	54.5%	3
Women	94	51.0%	36	50.7%	5	45.5%	1
Other	–	–	–	–	–	–	–
Not specified/ prefer not to say	–	–	–	–	–	–	–
	184		71		11		4
Ethnicity⁵							
White British/ White Other	138	75.0%	64	90.1%	10	90.9%	4
Mixed/Multiple Ethnic Groups	9	4.9%	1	1.4%	–	–	–
Asian/Asian British	17	9.2%	2	2.9%	1	9.1%	–
Black/African/ Caribbean/Black British	16	8.7%	1	1.4%	–	–	–
Other Ethnic Group	4	2.2%	3	4.2%	–	–	–
Not specified/ prefer not to say	–	–	–	–	–	–	–
Total	184		71		11		4

1 Total employees include the Board of Directors.
 2 Includes the Executive Committee and its direct reports (excluding administrative and support staff).
 3 The Board includes the Chairman, Executive Directors and Non-Executive Directors.
 4 Senior positions on the Board include the CEO, CFO, Chairman and Senior Independent Director.
 5 The information disclosed, and the format of the table, is prescribed by Listing Rule 9.8.6R(10).



2022 Facilities and Building Management apprentices

REMUNERATION COMMITTEE REPORT



CLAUDIA ARNEY

Chair of the Remuneration Committee

2023 FOCUS AREAS

- Ensure the 2023 Remuneration Policy is effectively implemented following shareholder approval in May 2023
- Operation of the 2023 annual bonus and grant of 2023 Performance Share Plan (PSP) awards
- Continue to keep wider workforce remuneration arrangements under review, taking these into account when considering remuneration arrangements for Executive Directors
- Continue to keep under review the effectiveness and relevance of performance conditions and comparator groups for variable remuneration

COMMITTEE MEMBERSHIP DURING 2022

	Independent	Number of meetings	Attendance ¹
Claudia Arney	Yes	4	100%
Lucinda Bell	Yes	4	100%
Helen Gordon	Yes	4	100%
Sanjeev Sharma ²	Yes	3	100%

¹ Percentages are based on the meetings Directors were entitled to attend for the 12 months ended 31 December 2022.

² Sanjeev Sharma joined the Committee on 1 March 2022.

ANNUAL STATEMENT

Dear Shareholder,

As Chair of the Remuneration Committee and on behalf of the Board, I am pleased to present our report on Directors' remuneration for 2022. This includes:

- My **Annual statement** as Chair of the Remuneration Committee (pages 190 to 193);
- Our new **Directors' Remuneration Policy** which will be subject to a binding shareholder vote at the 2023 AGM (pages 194 to 202); and
- The **Annual report on remuneration** (pages 203 to 223), describing how the Remuneration Policy has been applied for the year ended 31 December 2022 and how we intend to implement policy for 2023.

The Remuneration Committee report (excluding the Directors' Remuneration Policy) will be subject to an advisory shareholder vote at the 2023 AGM.

Linking Executive Directors' remuneration with our purpose and strategy

Our Remuneration Policy is designed to be simple and transparent and to promote effective stewardship that is vital to the delivery of the Group's purpose and strategy. Further details, including how our KPIs are embedded within the remuneration framework and how remuneration aligns with our values, is set out on page 205. Derwent London values openness and transparency. To this end the Committee strives to provide clarity on how pay and performance is reported at Derwent London and how decisions made by the Committee support our purpose and strategic direction of the Group and take into account the experience of key stakeholders.

Performance outcomes in 2022

Annual bonus: In line with recent years, the annual bonus is subject to relative total return performance (37.5%), relative total property return performance (37.5%) and strategic performance (25%).

Total return performance is measured against a comparator group of real estate companies (see page 215 for details). A robust methodology for assessing the Group's total return performance against the comparator group has been applied consistently for a number of years which includes, for a number of the comparators, an estimate of performance to 31 December 2022. However, in light of current volatility and uncertainty in respect of property valuations, the Committee has decided to delay the assessment of the performance of the total return performance of the comparator group until more published information is available. The Committee has therefore not yet determined the Group's relative performance and vesting outcome as at the date of this report. The Committee will determine the vesting outcome of the relative total return element in the coming months, when it has greater clarity in respect of comparator group total return performance.

Full details of the vesting outcome of the total return element (which may range between 0% and 100% of maximum) and total bonus earned in respect of 2022 will be disclosed in the 2023 Report & Accounts.

The Group's 2022 total property performance was -3.4% compared to the MSCI Quarterly Central London Offices Total Return Index of -8.02% and the relative total property return element therefore vested in full (see page 215). 17.6% of the strategic element vested based on performance against strategic targets (see page 216). The Executive Directors therefore earned a bonus equal to 82.7% of salary based on the relative total property return and strategic elements only and this will be paid in March 2023. As noted above, the relative total return element is still to be assessed by the Committee. Therefore, the Executive Directors may ultimately earn a bonus up to 139% of salary depending on the vesting outcome of the relative total return element.

Performance Share Plan: The PSP award granted in 2020 will lapse in full based on the outcome of the relative total shareholder return and relative total property return performance metrics. The Committee considered the formulaic vesting outcomes against broader perspectives including: underlying business performance and affordability; the experience of shareholders; and the experience of employees and other stakeholders.

The Group has continued to perform strongly relative to Central London office-based real estate peers in the face of continued economic and geopolitical uncertainty. The Group raised the 2022 interim dividend by 4.4% to 24p per share and the proposed 2022 final dividend has been increased by 1.9% to 54.50p per share.

The Committee has introduced a dedicated section within this report which incorporates several disclosures to demonstrate the Committee's belief that remuneration arrangements for Executive Directors are fair and appropriate in the context of pay policies and practice across the wider workforce. The following is noted in particular:

- All eligible employees received a bonus for 2022.
- In October 2022, the Directors approved the payment of a one-off gross non-pensionable payment of £1,000 to all employees (not under notice) with a full-time equivalent base salary of £55,000 or less. The payment was aimed to offer additional help to employees where it was believed the economic burden of the current 'cost of living crisis' would be most challenging.

The Group has continued to perform strongly in difficult circumstances which is testament to the quality and commitment of our executive leadership team. However, the Committee also recognises that shareholders have been impacted by the Group's absolute share price performance during the year. Therefore, on balance, the Committee considered the vesting outcome of the annual bonus and PSP awards to be appropriate and no discretion was applied to adjust the formulaic outcome.

Remuneration Policy review

Our current Remuneration Policy, which was approved by shareholders at our 2020 AGM (with a vote in favour of 95.5%), is approaching the end of its three-year term. During 2022, the Committee has undertaken a comprehensive review of the executive remuneration framework which included consultation with 20 major shareholders representing c.64% of our issued share capital and three proxy agencies.

In its review, the Committee considered a range of incentive frameworks including restricted shares. The Committee concluded that the current Policy and incentive framework (comprising an annual bonus and PSP) continues to support our purpose, the delivery of our business strategy and the creation of shareholder value. Therefore, no significant changes are proposed. One refinement has been proposed to the Policy which is to strengthen the annual bonus deferral requirements.

Under the current Policy, Executive Directors are required to defer any annual bonus earned above 100% of salary into shares for three years. Under the new Policy, Executive Directors will be required to defer any annual bonus earned above 75% of salary into shares for three years. This refinement means that any bonus earned above target performance (i.e. 50% of maximum) will be deferred, with 50% of the bonus total deferred at maximum performance. In addition, until the within-employment shareholding guideline is met, Executive Directors are required to retain at least half of any deferred bonus shares or PSP shares which vest (net of tax).

The Committee considers that this approach strikes an appropriate balance between moving more towards market practice and recognising that Executive Directors already have significant shareholdings in excess of 200% of salary (with the exception of Emily Prideaux, who was appointed as an Executive Director on 1 March 2021 and is working towards achieving the within-employment shareholding guideline of 200% of salary).

The Committee also considered the performance metrics under the annual bonus and PSP as part of the Policy review. Staying ahead of the sustainability curve and delivering on its net zero carbon commitments is a fundamental part of Derwent London's long-term strategy. The Committee therefore considers it appropriate to introduce sustainability performance metrics (embodied carbon reduction and energy intensity reduction) within the PSP. Further details are provided on pages 192 and 212.

The Committee is very appreciative of the time taken by shareholders to engage on the Policy review and proposed salary increases for Paul Williams and Emily Prideaux, and is pleased with the level of support received from shareholders on the proposals.

REMUNERATION COMMITTEE REPORT continued

ANNUAL STATEMENT continued

Implementation in 2023

Base salaries and fees: On promotion to Chief Executive in May 2019, Paul Williams' salary was set at £600,000. His salary was positioned towards the lower end of market practice for a company of our size and complexity and below that of his predecessor. Paul's salary on appointment reflected that he was stepping up into the role of Chief Executive. As noted in the 2019 Report & Accounts and again in last year's Report & Accounts, the Committee committed to keep Paul's salary level under review as he developed and gained experience in the role with a view to moving his salary level closer to the market rate over time.

Since appointment, Paul's salary has been increased by 2% from 1 January 2021 and 3% from 1 January 2022, which was in line with and below the increases awarded to the wider workforce respectively. In light of the Covid-19 pandemic, the Committee did not consider that it was appropriate to make a more material change at either of these points in time.

The Board believes that Paul has performed very strongly since his appointment, skilfully navigating the Group through the Covid-19 pandemic and more latterly the challenging economic environment, and the Board believes that his experience and performance is comparable with an experienced Chief Executive.

The Committee therefore increased Paul's base salary from £630,400 to £680,000 (7.8% increase) with effect from 1 January 2023. Paul's salary is now positioned in line with his predecessor's salary from 2019 which was £677,000 when he stepped down from the role.

While this decision was not driven by benchmarking, the Committee considered the salary positioning against market data to ensure it was appropriate. Following the increase, Paul's salary and his total compensation opportunity is positioned between lower quartile and median compared to other FTSE 250 companies of a similar size and complexity and at around median compared to our real estate peers. The Committee concluded that this positioning was appropriate.

Emily Prideaux was appointed to the Board on 1 March 2021 with a base salary of £410,000 and this increased to £450,000 with effect from 1 January 2022. Emily's salary was positioned below that of the other Executive Directors' salaries to reflect that she was stepping up into an Executive Director role; with the intention that Emily's salary would align with the other Executive Directors' salaries over three years as her role and experience develops. Emily has continued to perform exceptionally well in her role as an Executive Director and therefore the Committee intends to align her salary with the other Executive Directors' salaries by 1 January 2024, subject to continued strong performance.

As part of this alignment, the Committee increased Emily's salary to £492,500 (9.4% increase) with effect from 1 January 2023.

The Committee increased Damian Wisniewski's and Nigel George's salaries from £504,300 to £524,500 (4% increase) with effect from 1 January 2023. The average increase for the wider workforce was 6.1%.

There will be no increase to the Non-Executive Director fees in 2023.

Annual bonus: The annual bonus and PSP opportunities and financial performance measures remain largely unchanged for 2023. Minor changes have been made to the strategic targets which make up 25% of the bonus (see page 211).

PSP: As noted on page 191, the Committee proposes to introduce embodied carbon reduction and energy intensity reduction performance metrics within the PSP (both of which are major pillars in Derwent London's Net Zero Carbon Pathway), alongside relative total shareholder return and total property return. The embodied carbon and energy intensity reduction targets will align with the business' science-based targets to achieve net zero by 2030.

The Committee is cognisant that key business decisions can unintendedly impact embodied carbon and energy intensity reduction performance, given there are various nuances to measuring performance under the science-based targets legislation. In recognition that we are still developing our approach, it is intended that the performance metrics are introduced on a phased basis as follows:

- **2023 PSP:** Total Shareholder Return (50%), Total Property Return (40%), embodied carbon and energy intensity reduction (10%). See page 212 for details of targets.
- **2024 and 2025 PSP:** Total Shareholder Return (50%), Total Property Return (30%), embodied carbon and energy intensity reduction (20%).

This balance of performance metrics reflects Derwent London's continued focus on delivering above average long-term returns to shareholders, together with our commitment to sustainability and ambition to be a net zero carbon business by 2030.

The Committee reviewed the Group's share price performance prior to determining award levels for the 2023 PSP grant. As the share price on 24 February 2023 was not materially different to the share price at the time the 2022 PSP awards were granted (£29.36), the Committee considered it appropriate to award a maximum opportunity of 200% of salary to Executive Directors (in line with the maximum opportunity under the Remuneration Policy).

Further engagement

I look forward to receiving your support at our 2023 AGM, where I will be available to respond to any questions shareholders may have on this report. In the meantime, if you would like to discuss any aspect of the Committee's activities, please contact me through the Company Secretary, David Lawler (telephone: **+44 (0)20 7659 3000** or email: company.secretary@derwentlondon.com).

The Directors' remuneration report has been approved by the Board of Directors and signed on its behalf by:

CLAUDIA ARNEY
Chair of the Remuneration Committee
27 February 2023

Our remuneration principles

The Committee ensures that the remuneration arrangements for Executive Directors are aligned with our key remuneration principles which are detailed below, as well as taking into account the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture set out in the 2018 UK Corporate Governance Code.

Attract, retain and motivate	Support an effective pay for performance culture which enables the Company to attract, retain and motivate Executive Directors who have the skills and experience necessary to deliver the Group's purpose.
Clarity and simplicity	Ensure that remuneration arrangements are simple and transparent to key stakeholders and take account of pay policies for the wider workforce. Details of the maximum potential values that may be earned through the remuneration arrangements are set out in the Remuneration Policy on pages 194 to 196.
Alignment to strategy and culture	Align remuneration with the Group's objectives and long-term strategy and reflect our culture through a balanced mix of short- and long-term performance-related pay and ensure that performance metrics remain effectively aligned with strategy.
Risk management	Promote long-term sustainable performance through sufficiently stretching performance targets, whilst ensuring that the incentive framework does not encourage Executive Directors to operate outside the Group's risk appetite (see page 115). Malus and clawback provisions apply to annual bonus and PSP awards, and the Committee has the means to apply discretion and judgement to vesting outcomes.
Stewardship	Promote long-term shareholdings by Executive Directors that support alignment with long-term shareholder interests. Executive Directors are subject to within-employment and post-employment shareholding guidelines. Once PSP awards have vested there is a two-year holding period during which Executive Directors are not able to sell their shares to support sustainable decision making.
Predictability	The 'Remuneration scenarios for Executive Directors' on page 199 indicate the potential values that may be earned through the remuneration structure.
Proportionality and fairness	Total remuneration should fairly reflect the performance delivered by the Executive Directors and the Group. The Committee takes into account underlying business performance and the experience of shareholders, employees and other stakeholders when determining vesting outcomes, ensuring that poor performance is not rewarded. The Committee considers the approach to wider workforce pay and policies when determining the Remuneration Policy to ensure that it is appropriate in this context.

Relative importance of the Company's spend on pay

In order to give shareholders an understanding of how total expenditure on remuneration (for all employees) compares to certain core financial dispersals of the Company, the table below demonstrates the relative importance of the Company's spend on employee pay for the period 2021 to 2022.

£m	2022	2021	% change
Staff costs ¹	26.0	27.7	(6.5%)
Distributions to shareholders	87.0	84.6	+2.8%
Net asset value attributable to equity shareholders ²	4,076	4,442	(8.2%)

¹ Staff costs includes salaries, employer pension contributions, social security costs and share-based payment expenses relating to equity-settled schemes.

² Net asset value attributable to equity shareholders was chosen as it is a key determinate of the Group's total return and is used by management to measure our progress. We base our total return calculation on EPRA net tangible assets (NTA).

REMUNERATION COMMITTEE REPORT continued

DIRECTORS' REMUNERATION POLICY

The following part of the report sets out the Remuneration Policy for the Group (Policy). This Policy will be put forward to shareholders for their binding approval at the AGM on 12 May 2023 and will apply to payments made from this date. Further details regarding the operation of the Policy for the 2023 financial year can be found on pages 210 to 212.

Executive Director policy table

The policy table below sets out the key elements of the remuneration package for Executive Directors.

Element	Purpose and link to strategy	How operated	Maximum opportunity	Performance measures
Base salary	To recruit, retain and motivate high calibre executives. Reflects experience and importance to the business.	Normally reviewed annually. Any increase is normally effective from 1 January. Factors taken into account in the review include: <ul style="list-style-type: none"> the role, experience and performance of the individual and the Company; pay and conditions throughout the business; and practice in companies with similar business characteristics. 	While there is no maximum salary or salary increase, increases will normally be consistent with the policy applied to the workforce generally (in percentage of salary terms). Increases above this level may be awarded in certain circumstances such as, but not limited to: <ul style="list-style-type: none"> where there is a change in role or responsibility; an Executive Director's development or performance in role (e.g. to align a new hire's salary with the market over time); and where there is a significant change in the size and/or complexity of the Group. 	A broad assessment of personal and corporate performance is considered as part of the salary review.
Benefits	To provide a market competitive benefits package to help recruit and retain high calibre executives and to support their wellbeing.	Benefits include, but are not limited to, private medical insurance, car and fuel allowance and life assurance. Executive Directors may participate in the Sharesave Plan and any other all-employee plans on the same basis as other employees up to HMRC approved limits. In certain circumstances, the Committee may also approve additional one-off or ongoing allowances or benefits relating to the relocation of an Executive Director as may be required to perform the role. The Committee has the ability to reimburse reasonable business-related expenses and any tax thereon. The Committee may introduce other benefits if it is considered appropriate to do so.	Whilst there is no prescribed maximum cost of providing benefits, the value of benefits is set at a level which the Committee considers to be appropriate taking into account relevant factors including but not limited to the overall cost to the Company in securing the benefits, individual circumstances, benefits provided to the wider workforce and market practice.	None.
Pension	To provide an appropriate level of retirement benefit.	The Company operates a defined contribution pension scheme. Executive Directors may receive cash payments in lieu of contributions where considered appropriate (for example where contributions would exceed either the lifetime or annual contribution limits).	The maximum Company contribution or cash supplement (or a mix of both) for Executive Directors is aligned with the contribution available to the majority of the wider workforce (currently 15% of salary).	None.

Element	Purpose and link to strategy	How operated	Maximum opportunity	Performance measures
Annual bonus	<p>To incentivise the annual delivery of stretching financial targets and strategic goals. Financial performance measures reflect metrics relevant to the business.</p>	<p>Bonus awards are based on performance measures set by the Committee (typically measured over a financial year) against key financial measures and strategic objectives, and continued employment.</p>	<p>Maximum opportunity of up to 150% of salary may be awarded in respect of a financial year.</p> <p>Bonuses up to 75% of salary are paid as cash. Amounts in excess of 75% are deferred into shares for three years subject to continued employment.</p> <p>The Committee may decide to pay the entire bonus in cash where the amount to be deferred into shares would, in the opinion of the Committee, be so small it is administratively burdensome to apply deferral.</p> <p>Dividend equivalents may accrue on deferred shares. Such amounts will normally be paid in shares.</p> <p>Malus and clawback provisions apply (see table on page 197).</p> <p>The Committee has discretion to adjust the payment outcome if it is not deemed to reflect the underlying financial or non-financial performance of the business, the performance of the individual or the experience of shareholders or other stakeholders over the performance period.</p>	<p>At least 75% of the annual bonus will be based on financial measures with up to 25% based on strategic objectives.</p> <p>Financial measures Up to 22.5% of each bonus element will be payable for threshold performance, with full payout for maximum performance. No amount is payable for achieving below threshold performance.</p> <p>Strategic objectives Vesting will apply on a scale between 0% and 100% based on the Committee's assessment of the extent to which performance against the strategic objectives has been met.</p> <p>Performance measures are reviewed annually reflecting the Group's strategy and metrics relevant to the business.</p>
Long-term incentives	<p>To align the long-term interests of the executives with those of the Group's shareholders.</p> <p>To incentivise value creation over the long-term and support stewardship.</p>	<p>Award of performance shares which vest after three years subject to performance measures set by the Committee and continued employment.</p> <p>Awards will be subject to a two-year post-vesting holding period.</p> <p>Dividend equivalents may accrue on performance shares. Such amounts will normally be paid in shares.</p> <p>Malus and clawback provisions apply (see table on page 197).</p> <p>The Committee has discretion to adjust the vesting outcome if it is not deemed to reflect appropriately the underlying financial or non-financial performance of the business, the performance of the individual or the experience of shareholders or other stakeholders over the performance period.</p>	<p>Maximum opportunity of up to 200% of salary may be awarded in respect of a financial year.</p>	<p>Performance measures and their weightings are reviewed annually reflecting the Group's strategy and metrics relevant to the business. Details of the performance measures for the 2023 awards are set out on page 212.</p> <p>Up to 22.5% of each element of an award vests for achieving threshold performance, with full vesting for achieving maximum performance. No award vests for achieving below threshold performance.</p>

REMUNERATION COMMITTEE REPORT continued

DIRECTORS' REMUNERATION POLICY continued

Element	Purpose and link to strategy	How operated	Maximum opportunity	Performance measures
Share ownership guidelines	To provide alignment with the long-term interests of shareholders and support stewardship.	<p>Within-employment: Executive Directors are expected to build up and retain a shareholding equal to 200% of salary. Until the shareholding guideline is met, 50% of any deferred bonus awards or PSP awards vesting (net of tax) normally must be retained.</p> <p>Post-employment: Executive Directors who step down from the Board are normally expected to retain a holding in 'guideline shares' equal to:</p> <ul style="list-style-type: none"> • 200% of salary (or their actual shareholding at the point of stepping down if lower) for the first 12 months following stepping down as an Executive Director. • 100% of salary (or their actual shareholding at the point of stepping down if lower) for the subsequent 12 months. <p>'Guideline shares' do not include shares that the Executive Director has purchased or which have been acquired pursuant to deferred share awards or PSP awards which vested before 1 January 2020. Unless the Committee determines otherwise, an Executive Director or former Executive Director shall be deemed to have disposed of shares which are not 'guideline shares' before 'guideline shares'.</p> <p>The Committee retains discretion to waive this guideline if it is not considered to be appropriate in the specific circumstance.</p>	n/a	n/a

Non-Executive Director policy table

The policy table below sets out the key elements of the remuneration package for Non-Executive Directors.

	Operation	Determination of fees
Chairman	<p>The remuneration of the Chairman is set by the Board (excluding the Chairman).</p> <p>The Chairman receives an annual fee and may be eligible to receive benefits including but not limited to secretarial provision and travel costs. Non-significant benefits may be provided if considered appropriate.</p> <p>The Chairman does not receive pension or participate in incentive arrangements.</p>	<p>Fees are set taking into account:</p> <ul style="list-style-type: none"> • The time commitment and responsibilities expected for the roles. • Pay and conditions throughout the business. • Practice in companies with similar business characteristics.
Non-Executive Directors	<p>The remuneration for Non-Executive Directors is set by the Executive Directors.</p> <p>Non-Executive Directors receive a base fee plus additional fees for committee chairmanship, committee membership and for the Senior Independent Director. Additional fees may be paid to reflect additional Board or committee responsibilities or time commitment as appropriate.</p> <p>Non-Executive Directors may be eligible to receive benefits including but not limited to secretarial provision and travel costs.</p> <p>Non-Executive Directors do not receive pension contributions or participate in incentive arrangements.</p>	<p>Fees are reviewed periodically. Overall fees paid to the Chairman and Non-Executive Directors will remain within the limits set by the Company's Articles of Association.</p>

Information supporting the Policy

Malus and clawback

Malus and clawback provisions apply to annual bonus, deferred bonus and performance shares over the following time periods:

	Malus	Clawback
Annual bonus	To such time as payment is made.	Up to two years following payment.
Deferred bonus	To such time as the award vests.	No clawback provisions apply (as malus provisions apply for three years from the date of award).
Performance shares	To such time as the award vests.	Up to two years following vesting.

Malus and clawback may apply in the following circumstances:

1. Material misstatement of financial results.
2. An error in assessing performance conditions which has led to an overpayment.
3. Dismissal due to gross misconduct.
4. Serious reputational damage.
5. Corporate failure.

Choice of performance measures

The performance measures used for the annual bonus and PSP awards reflect the short- and long-term financial and strategic priorities of the business, and are aligned with performance measures used by our real estate sector peers.

A significant proportion of annual bonus and PSP awards are subject to performance relative to the real estate sector. This helps support an incentive framework whereby Executive Directors may be fairly and equitably rewarded for outperforming peers and delivering shareholder value in a cyclical market. For relative performance measures, performance targets are set each year relative to the real estate comparator group.

For strategic measures, targets are set taking into account the Group's strategic plan. Maximum vesting will only occur for what the Committee considers to be outstanding performance.

Details of the performance measures for the 2023 annual bonus and PSP awards are set out on pages 211 and 212.

The Committee retains the ability to adjust or set different performance measures or targets if events occur (such as a change in strategy, a material acquisition and/or divestment of a Group business or a change in prevailing market conditions) which cause the Committee to determine that the performance measures and/or targets are no longer appropriate and the amendment is required so that they achieve their original purpose and are not materially less difficult to satisfy.

Share awards may be adjusted in the event of a variation of share capital or a demerger, delisting, special dividend or other event that may affect the Company's share price.

Legacy arrangements

The Committee retains discretion to make any remuneration payment and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) which are outside of the Policy set out here:

- Where the terms of the payment were agreed before 16 May 2014 (the date the Company's first shareholder-approved policy came into force) or this Policy came into effect (provided that the terms of the payment were consistent with the shareholder approved Directors' Remuneration Policy in force at the time they were agreed).
- Where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company (or other persons to whom the Policy set out above applies), and in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company or such other person.
- To satisfy contractual arrangements under legacy remuneration arrangements.

For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than at the time the award is granted. This Policy applies equally to any individual who is required to be treated as a Director under the applicable regulations. The Executive Directors' legacy arrangements include unvested PSP awards (see page 219). Emily Prideaux holds unexercised ESOP options which were granted to her prior to her becoming an Executive Director (see page 222).

REMUNERATION COMMITTEE REPORT continued

DIRECTORS' REMUNERATION POLICY continued

Changes to the Directors' Remuneration Policy and summary of decision making process

The Committee has undertaken a comprehensive review of the executive remuneration framework and concluded that it continues to support the delivery of our business strategy and the creation of shareholder value. Consequently, we are not proposing any significant changes to the framework.

There is one refinement to the Policy which is to strengthen the annual bonus deferral requirements. Under the Policy, Executive Directors will be required to defer any annual bonus earned above 75% of salary into shares for three years. Under the 2020 Policy, Executive Directors were required to defer any annual bonus earned above 100% of salary into shares for three years. Other minor changes have been made to the wording of the Policy to simplify and aid its operation, to increase clarity and to align with market practice.

In determining the Policy, the Committee followed a robust process which included discussions on the content of the Policy at four Remuneration Committee meetings during 2022. The Committee considered input from management and our independent advisers, and consulted with major shareholders.

Management did not take part in any decision making discussions as regards changes to the Policy or executive remuneration framework in order to avoid any conflicts of interest.

Factoring our stakeholders into our decisions

Engaging with our shareholders

The Committee actively seeks dialogue with shareholders and values their input. As part of the Policy review, a comprehensive shareholder consultation was undertaken and the Committee carefully considered the feedback received from major shareholders and proxy voting agencies as part of its decision making. The Committee is very appreciative of the time taken by shareholders to provide their feedback.

On an ongoing basis, any feedback received from shareholders is considered as part of the Committee's annual review of remuneration. The Committee will also discuss voting outcomes at the relevant Committee meeting and will consult with shareholders if and when making any significant changes to the way the Remuneration Policy is implemented.

Component	2020 Remuneration Policy	2023 Remuneration Policy
Base salary and benefits	Attract and retain high calibre executives	No change
Pension	In line with the contributions available for the majority of the wider workforce (currently 15% of salary)	No change
Annual bonus	Maximum opportunity of 150% of salary Linked to key financial and strategic KPIs: <ul style="list-style-type: none"> • 37.5% Relative TR • 37.5% Relative TPR • 25% Strategic 	No change
	Any bonus earned in excess of 100% of salary is deferred into shares over three years	We are strengthening bonus deferral such that amounts in excess of 75% of salary are deferred into shares over three years
LTIP	Maximum opportunity of 200% of salary Three-year performance period plus two-year holding period Performance metrics and weighting: <ul style="list-style-type: none"> • 50% Relative TSR • 50% Relative TPR 	No change Proposed performance metrics and weighting: <ul style="list-style-type: none"> • 2023: Relative TSR (50%), Total Property Return (40%) and embodied carbon reduction and energy intensity reduction (10%). • 2024 and 2025: Relative TSR (50%), Total Property Return (30%) and embodied carbon reduction and energy intensity reduction (20%). Discretion is retained to vary the metrics as appropriate.
Shareholding guidelines	200% of salary for all executives Post-employment guidelines apply	No change

Engaging with our employees

We have an open, collaborative and inclusive management structure and engage regularly with our employees on a variety of issues. We do this through a range of one-way and two-way channels including appraisals, employee surveys, our intranet site, Company presentations, awaydays and our wellbeing programme. Employees are therefore provided with the means to engage on a range of matters, including the Group's approach to executive remuneration, how executive remuneration aligns with the Group's pay policy and how the structure of executive remuneration compares to wider workforce remuneration.

Furthermore, we set out within the Remuneration Committee report, the remuneration structure for the wider workforce which is similar to that of our Executive Directors and contains both fixed and performance-based elements (see page 207). The Committee considers pay across the Group, as well as any employee feedback, when making decisions on executive remuneration.

- EMPLOYEE ENGAGEMENT / See page 144
- EMPLOYEES ON A COMMITTEE / See page 184
- REMUNERATION IN CONTEXT / See page 207

REMUNERATION SCENARIOS FOR EXECUTIVE DIRECTORS

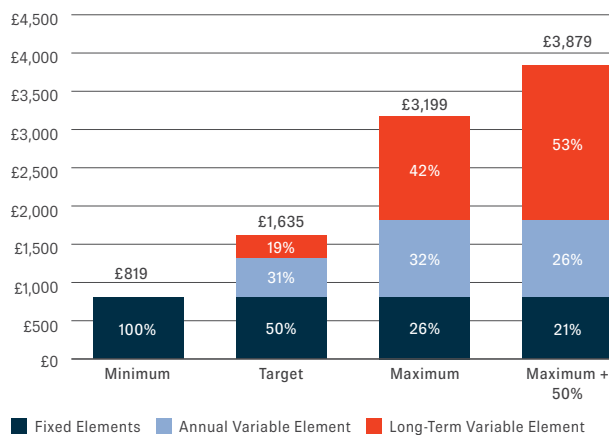
The Committee aims to provide a significant part of the Executive Directors' total remuneration through variable pay and the adjacent diagrams illustrate the remuneration opportunity provided to the Executive Directors for various indicative levels of performance.

For the purpose of this analysis, the following assumptions have been made:

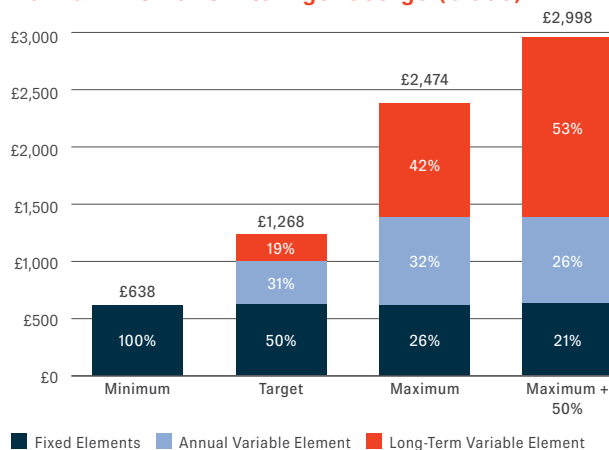
Minimum performance	Fixed remuneration only
On target performance	Fixed remuneration 50% of the annual bonus is earned 22.5% of the PSP vests
Maximum performance	Fixed remuneration 100% of the annual bonus is earned 100% of the PSP vests
Maximum performance + 50% share price growth	As per the maximum performance illustration, but also assumes for the purposes of the PSP that share price increases by 50% over the performance period

1 'Fixed remuneration' includes salary, pension and other benefits.
 2 Salary levels applying on 1 January 2023.
 3 Pension is based on the salary and pension policy applying from 1 January 2023.
 4 Benefit levels are assumed to be the same as disclosed in the single figure for 2022.

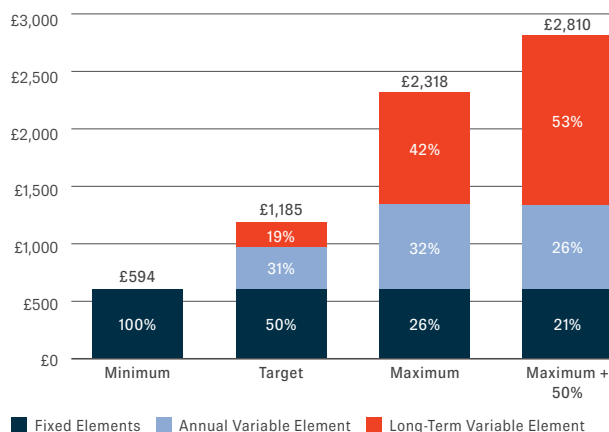
Paul Williams (£'000)



Damian Wisniewski & Nigel George (£'000)



Emily Prideaux (£'000)



REMUNERATION COMMITTEE REPORT continued

DIRECTORS' REMUNERATION POLICY continued

Recruitment and promotion policy

The remuneration of a new Executive Director will normally include salary, benefits, pension and participation in the annual bonus and PSP arrangements in accordance with the policy for Executive Directors' remuneration. In addition, the Committee has discretion to include any other remuneration component or award which it feels is appropriate taking into account the specific circumstances of the recruitment, subject to the principles and limits set out below. The key terms and rationale for any such component would be disclosed as appropriate in the Directors' remuneration report for the relevant year.

Policy

Salary	<p>Salary will be set taking into account the individual's experience and skills, prevailing market rates in companies of comparable size and complexity and internal relativities.</p> <p>Where appropriate the Committee may set the initial salary below the market level (e.g. if the individual has limited PLC board experience or is new to the role), with the intention to make phased pay increases over a number of years, which may be above those of the wider workforce, to achieve the desired market positioning. These increases will be subject to continued development in the role.</p>
Buy-out awards	<p>Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate, taking into account all relevant factors including the form of awards, expected value and vesting time frame of forfeited opportunities. When determining any such 'buy-out', the guiding principle would be that awards would generally be on a 'like-for-like' basis unless this is considered by the Committee not to be practical or appropriate.</p> <p>Where possible the buy-out award will be accommodated under the Company's existing incentive plans, but it may be necessary to utilise the exemption provided in the Listing Rules. Shareholders will be informed of any such payments in the following year's Annual report on remuneration.</p>
Maximum level of variable remuneration	<p>The Committee will not offer non-performance-related variable remuneration and the maximum level of variable remuneration which may be granted (excluding buy-out awards) is 350% of salary, which is in line with the current maximum limit under the annual bonus and PSP.</p>
Other elements of remuneration	<p>Other elements may be included in the following circumstances:</p> <ul style="list-style-type: none"> • An interim appointment being made to fill an Executive Director role on a short-term basis. • If exceptional circumstances require that the Chair or a Non-Executive Director takes on an executive function on a short-term basis. • If an Executive Director is recruited at a time in the year when it would be inappropriate to provide an annual bonus or PSP award for that year. Subject to the limit on variable remuneration set out above, the quantum in respect of the period employed during the year may be transferred to the subsequent year. • If the Executive Director is required to relocate, reasonable relocation, travel and subsistence payments may be provided (either via one-off or ongoing payments or benefits).

In the case of an internal appointment, any ongoing remuneration obligations or variable pay element awarded in respect of the prior role shall be allowed to continue according to its original terms, adjusted as relevant to take into account the appointment.

Fees payable to a newly appointed Chair or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Service contracts and compensation for loss of office

Executive Directors' service contracts do not have a fixed expiry date, however, they are terminable either by the Company providing 12 months' notice or by the executive providing six months' notice. Further details are set out in the Annual report on remuneration on page 202. The principles on which the determination of compensation for loss of office will be approached are set out below.

Policy	
Payments in lieu of notice	<p>Service contracts include a payment in lieu of notice clause which provides that payments may be made in monthly phased payments throughout the notice period which include pro-rated salary, benefits and pension only.</p> <p>Payments in lieu of notice are subject to mitigation.</p>
Annual bonus	<p>The extent to which any bonus will be paid out will be determined in accordance with the annual bonus plan rules. Executive Directors must normally be in employment on the payment date to receive an annual bonus. However, if an Executive Director leaves as a 'good leaver', the Executive Director will normally be considered for a bonus payment.</p> <p>It is the Committee's policy to ensure that any bonus payment reflects the departing Executive Director's performance. Unless the Committee determines otherwise, any bonus payment will be paid at the usual time following the determination of performance measures and be subject to a pro rata reduction for time served during the performance period.</p>
Deferred bonus shares	<p>The extent to which any unvested awards will vest will be determined in accordance with the deferred bonus plan rules.</p> <p>Unvested awards will normally lapse on cessation of employment. However, if an Executive Director leaves as a 'good leaver', the awards will continue and will normally vest at the normal vesting date. In exceptional circumstances, the Committee may decide that the Executive Director's deferred share awards will vest at the date of cessation of employment.</p>
PSP	<p>The extent to which any unvested awards will vest will be determined in accordance with the PSP rules.</p> <p>Unvested awards will normally lapse on cessation of employment. However, if an Executive Director leaves as a 'good leaver', other than by reason of death, their unvested awards will continue and will normally remain capable of vesting at the normal vesting date. To the extent that awards vest, a two-year holding period would then normally apply. In exceptional circumstances, the Committee may decide that the Executive Director's awards will vest and be released early at the date of cessation of employment or at some other time (e.g. following the end of the performance period).</p> <p>If a participant dies, their unvested award will normally vest (and in the case of an award subject to a holding period, be released) on the date of their death.</p> <p>In all cases, vesting will depend on the extent to which the performance measures have been satisfied and will be subject to a pro rata reduction of the awards for time served from the grant date to the date of cessation of employment (although the Committee has discretion to disapply time pro rating if the circumstances warrant it).</p> <p>If an Executive Director leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during a holding period), their award will ordinarily continue to be released at the normal release date. In exceptional circumstances, the Committee may decide that the participant's award will be released early at the date of cessation of employment.</p>
Change of control	<p>Deferred bonus shares will vest in full in the event of a change of control or substantial exit.</p> <p>PSP awards will vest early in the event of change of control or substantial exit. The level of vesting will be determined taking into account the extent to which performance measures are satisfied at the date of the relevant event and, unless the Committee determines otherwise, awards will be pro rated for time served from the grant date to the date of the relevant event.</p>
Other payments	<p>In appropriate circumstances, payments may also be made in respect of items such as accrued holiday, outplacement and legal fees.</p> <p>Awards under the Sharesave Plan may vest and, where relevant, be exercised in the event of cessation of employment or change of control in accordance with the Sharesave Plan rules. The terms applying to any buyout awards on cessation of employment or change of control would be determined when the award is granted. Such terms would normally be consistent with the principles outlined above.</p> <p>The Committee reserves the right to make payments by way of settlement of any claim arising in connection with the cessation of employment.</p>

'Good leavers' includes: cessation of employment by reason of death, retirement, injury, ill health, disability, redundancy, transfer of employment outside of the Group, or any other reason as determined by the Committee.

REMUNERATION COMMITTEE REPORT continued

DIRECTORS' REMUNERATION POLICY continued

Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors do not have service contracts but are appointed for initial three-year terms which thereafter may be extended, subject to re-election, at each AGM. Details are set out in the table below.

External appointments

Executive Directors may accept a non-executive role at another company with the approval of the Board (see page 146). The Executive Director is entitled to retain any fees paid for these services.

Service contracts and letters of appointment

Executive Directors

Executive Directors' service contracts do not have a fixed expiry date, however, they are terminable either by the Company providing 12 months' notice or by the executive providing six months' notice.

	Date of service contract
Paul Williams	22 November 2018
Damian Wisniewski	10 July 2019
Nigel George	10 July 2019
Emily Prideaux	26 February 2021

Non-Executive Directors

Non-Executive Directors are appointed for initial three-year terms which thereafter may be extended, subject to re-election at each AGM. Further information on Non-Executive Director tenure and succession is on pages 153 and 154 of the Nominations Committee report.

	Date of latest appointment letter	Latest appointment letter expiry date
Mark Breuer	25 January 2021	1 February 2024
Claudia Arney ²	5 May 2021	18 May 2024
Dame Cilla Snowball	9 August 2021	31 August 2024
Helen Gordon	4 November 2020	31 December 2023
Lucinda Bell	9 November 2021	1 January 2025
Sanjeev Sharma	6 August 2021	1 October 2024

¹ Richard Dakin will step down from the Board on 28 February 2023.

² Claudia Arney intends to step down as a Director at the end of 2023 in advance of reaching her ninth anniversary on the Derwent London Board. Further information on Non-Executive Director succession is on page 154.

REMUNERATION AT A GLANCE

We are transparent about our pay practices which aim to incentivise our employees to achieve our strategy and generate sustainable value for our stakeholders.

Reward linked to performance

Annual bonus earned by Executive Directors

Measure	Threshold	Maximum	Actual	Bonus earned (% max)
Relative TR	37.5%	–	–	See note 1
Relative TPR	37.5%	(8.0)	(6.0)	(3.4)
Strategic	25%			17.6
Total				55.1

1 As noted on page 190 the vesting outcome of the total return element is still to be determined by the Committee. Full details of the vesting outcome of the total return element and total bonus earned in respect of 2022 will be disclosed in the 2023 Report & Accounts.

PSP earned by Executive Directors

Measure	Threshold	Maximum	Actual	PSP earned (% max)
Relative TSR	50%	(17.7)%	(0.8)%	(33.2)%
Relative TPR	50%	1.19%	3.19%	0.99%
Total				0.0

The Committee considers that these outcomes are fair in the context of our underlying performance and the experience of our shareholders and stakeholders. We provided further information on how our remuneration arrangements align with our strategy, purpose, values and performance on page 205.

Remuneration Policy review

During 2022, the Committee conducted a comprehensive review of its remuneration arrangements to ensure it remains closely aligned with the Company's strategic aims, purpose, attitude to risk and culture.

We engaged with 20 major shareholders representing c.64% of our issued share capital. Following consultation, we are not proposing any significant changes to our Remuneration Policy (a summary of the proposed changes is on page 198).

Related information is on the following pages:

- PURPOSE, CULTURE AND VALUES / See page 140
- REMUNERATION POLICY REPORT / See page 194

Remuneration clearly linked to sustainability outcomes

Our Remuneration Policy has been designed to support our strategy by aligning our performance-based pay with our strategic objectives and Net Zero Carbon Pathway. Under the 2023 Remuneration Policy, ESG-related metrics will be included in both elements of variable remuneration for the Executive Directors (annual bonus and LTIP). Further information on how remuneration supports our strategy and helps us to achieve our purpose is on page 205.

Related information is on the following pages:

- RESPONSIBILITY / See page 50
- NET ZERO CARBON / See page 27

Wider stakeholder considerations

The Committee considers pay policies and practices for employees, as well as feedback from key stakeholders, when making remuneration decisions for Executive Directors.

+6.1%

average increase for the wider workforce effective from 1 January 2023

£1,000

one-off payment for eligible employees to provide support with the 'cost of living crisis'

+2.6%

increase to the dividend in 2022

97.5%

of votes cast in favour of our Annual report on remuneration at the 2022 AGM

£354k

amounts committed by the Sponsorship and Donations Committee in 2022

REMUNERATION COMMITTEE REPORT continued

ANNUAL REPORT ON REMUNERATION

(unaudited unless otherwise indicated)

The Annual report on remuneration (pages 203 to 223) explains how we have implemented our Remuneration Policy during 2022. The Remuneration Policy in place for the year was approved by shareholders at the 2020 AGM and is available to download from our website at: www.derwentlondon.com/investors/governance/board-committees

Role of the Remuneration Committee

The role of the Committee is to determine and recommend to the Board the Remuneration Policy for Executive Directors, and set the remuneration for the Chairman, Executive Directors and senior management (including the Company Secretary). In doing so, the Committee has due regard for the remuneration arrangements available to the entire workforce (see page 207) and ensures that our Remuneration Policy supports our strategy, the achievement of our purpose and is aligned with our values (see page 205). We detail the Group's key remuneration principles, which inform our remuneration structure, on page 193.

Committee composition and performance

None of the members who have served on the Committee during the year had any personal interest in the matters decided by the Committee and are all considered to be independent (see page 190). The Company Secretary acted as Secretary to the Committee.

Claudia Arney is approaching her ninth anniversary on the Board and will step down as a Director in advance of the 2024 AGM. In preparation for the transition of Committee Chairmanship to Sanjeev Sharma, Sanjeev joined the Committee on 1 March 2022. As a result, Sanjeev will have more than 12 months' experience on a remuneration committee prior to becoming Committee Chair, in accordance with the 2018 UK Corporate Governance Code.

The 2022 evaluation of the Board, its committees and individual Directors was externally facilitated by Manchester Square Partners LLP, in accordance with our three-year cycle of evaluations (see page 149). The review confirmed that the Committee continues to operate effectively, with no significant matters raised.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in February 2022 and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

Shareholder voting

The Committee's resolutions at the Company's recent AGMs in respect of the Remuneration Policy and the Annual report on remuneration, received the following votes from shareholders:

The Committee was extremely pleased with the level of shareholder support at the 2022 AGM. The Committee encourages ongoing, open and constructive dialogue with shareholders and their representative bodies. During the year, the Committee conducted a comprehensive review of its remuneration arrangements to ensure it remained fit for purpose (see page 198).

Advisers to the Committee

The Committee has authority to obtain the advice of external independent remuneration consultants. Deloitte LLP have been appointed as the Committee's principal consultants since July 2018, following a competitive tender process. Deloitte is one of the founding members of the Remuneration Consulting Group. The Committee has been fully briefed on Deloitte's compliance with the voluntary code of conduct in respect of the provision of remuneration consulting services.

During the year under review, Deloitte provided independent assistance to the Committee in respect of, among other things, the following matters:

- Review of the Directors' Remuneration Policy.
- Performance assessment against annual bonus and PSP targets.
- Benchmarking of Chief Executive Officer remuneration.
- Market practice and corporate governance updates.

The fees paid to Deloitte for their services to the Committee during the year, based on time and expenses, amounted to £124,500.

Separate teams at Deloitte LLP also provided sustainability and health and safety assurance, corporate tax consultancy and employment tax consultancy services to the Group. The Committee took this work into account and, due to the nature and extent of the work performed, concluded that it did not impair Deloitte's ability to advise the Committee objectively and free from influence. It is the view of the Committee that the Deloitte engagement team which provide remuneration advice to the Committee does not have connections with Derwent London or its Directors that may impair its independence. The Committee therefore deems Deloitte capable of providing appropriate, objective and independent advice.

	Annual report on remuneration (2022 AGM)		Remuneration Policy (2020 AGM)	
Votes cast in favour	93.6m	97.5%	85.6m	95.5%
Votes cast against	2.4m	2.5%	4.0m	4.5%
Votes withheld	0.0m	0.0%	0.0m	0.0%
Total votes cast	96.0m		89.6m	

ALIGNING REMUNERATION WITH STRATEGY AND PERFORMANCE

How remuneration supports our strategy and helps us to achieve our purpose

Our Remuneration Policy is designed to be simple and transparent and to promote effective stewardship that is vital to the delivery of the Group’s purpose and strategy.

Sustainability is an integral part of the Group’s strategy; it differentiates us from our peers and ensures we continue to adapt. We seek to create above average long-term returns for our shareholders, retain and develop our talented workforce, design ‘long-life, loose-fit, low carbon’ space, and work towards achieving our net zero carbon ambitions. Further information on our strategy is on pages 38 to 44.

Our Remuneration Policy has been designed to support our strategy by aligning our performance-based pay with our strategic objectives and Net Zero Carbon Pathway. Our ability to provide above average returns to our shareholders is a substantial element of our PSP and is worth 50%. Our total shareholder return is ranked against the FTSE 350 Super Sector Real Estate Index and vesting of this element only occurs if we reach or exceed median. We also have ESG-related metrics within both elements of variable remuneration for Executive Directors (annual bonus and PSP). Further information on the rationale for the Committee’s chosen strategic performance targets is on page 211.

How our remuneration aligns with our values

Our core values are reflected in our remuneration arrangements in the following ways:

<p>We build long-term relationships</p> <p>We seek to create long-term collaborative relationships with our occupiers and employees. The annual bonus contains strategic targets for tenant retention and staff satisfaction. A staff satisfaction metric helps the Committee, and the Board, monitor the wellbeing of the wider workforce and gauge our ability to retain key talent.</p>	<p>We lead by design</p> <p>Leading the industry in achieving net zero carbon is a fundamental part of Derwent London’s long-term strategy. The Committee has introduced embodied carbon reduction and energy intensity reduction performance metrics into the PSP.</p>	<p>We act with integrity</p> <p>In the annual bonus, our staff satisfaction metric includes a gender variance underpin which links to the Group’s diversity and inclusion focus. The inclusion of a health and safety target in the annual bonus strengthens oversight and ensures that health and safety standards continue to be a priority.</p>
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How our KPIs are embedded within the executive remuneration framework

Success against our strategic objectives is measured using a range of financial and non-financial key performance indicators (KPIs), which are largely embedded within the executive remuneration framework as illustrated by the chart below. Further information on our KPIs is on pages 45 to 49.

KPIs	
Financial	Non-financial
Total return B	Reversionary percentage
Total property return ¹ P B	Development potential B
Total shareholder return P	Tenant retention B
EPRA earnings per share	Void management B
Gearing & available resources	BREEAM ratings
Interest cover ratio	Energy Performance Certificates (EPCs)
	Energy intensity P
	Carbon intensity P
	Accident Frequency Rate (AFR) B
	Staff satisfaction B

B Annual Bonus **P** Performance Share Plan

¹ Total Property Return (TPR) performance for the annual bonus is measured against the MSCI Quarterly Central London Offices Total Return Index (see page 215) whereas performance under the Performance Share Plan is our annualised TPR versus the MSCI Quarterly UK All Property Index tested over three years (see page 218).

Related information is on the following pages:

- [➤ PURPOSE, CULTURE AND VALUES / See page 140](#)
- [➤ OUR PERFORMANCE / See page 45](#)
- [➤ OUR STRATEGY / See page 38](#)

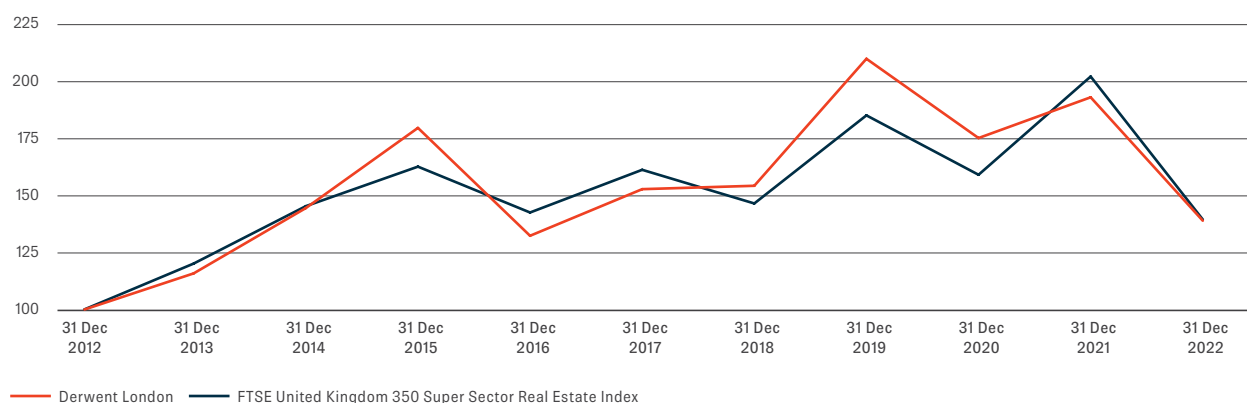
REMUNERATION COMMITTEE REPORT continued

ANNUAL REPORT ON REMUNERATION continued

Pay for performance comparison

The graph below shows the value on 31 December 2022 of £100 invested in Derwent London on 31 December 2013, compared to that of £100 invested in the FTSE 350 Super Sector Real Estate Index. The other points plotted are the values at intervening financial year ends. This index has been chosen by the Committee as it is considered the most appropriate benchmark against which to assess the relative performance of the Company for this purpose.

Total shareholder return (TSR)



Source: Datastream (Thomson Reuters)

Note: The TSR chart data is based on the 30-day average over the period 2 December to 31 December for each year.

Remuneration of the Chief Executive

The table below shows the remuneration earned by the Chief Executive over the last ten years. As noted on page 190 the vesting outcome of the relative total return element of the 2022 annual bonus is still to be determined by the Committee. The 2022 total remuneration and annual bonus earned (% of maximum) figures are therefore based on the vesting outcome of the relative total property return and strategic elements of the 2022 bonus only. Full details of the vesting outcome of the total return element (which may range between 0% and 100% vesting) and total bonus earned in respect of 2022 will be disclosed in the 2023 Report & Accounts.

Financial year ending	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019 ^{1,2,3}	31/12/2020	31/12/2021	31/12/2022
Chief Executive	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns	Paul Williams	Paul Williams	Paul Williams
Total remuneration (single figure) (£000)	2,478	2,648	2,529	1,403	1,681	2,219	1,399	2,100	2,214	1,238
Annual bonus (% of maximum)	95.0	92.6	74.2	23.3	53.6	68.5	97.0	97.0	66.3	30.9
Long-term variable pay (% of maximum)	55.2	50.0	65.7	24.9	26.5	46.0	65.75	65.75	81.6	18.1
										1,284
										55.1
										0.0

1 Paul Williams' 2019 total remuneration is in respect of his tenure as Chief Executive from 17 May 2019. His salary, bonus and PSP were subject to a pro rata time reduction.

2 The annual bonus (% of maximum) and long-term variable pay (% of maximum) for John Burns in 2019 is based on remuneration in the role of the Chief Executive.

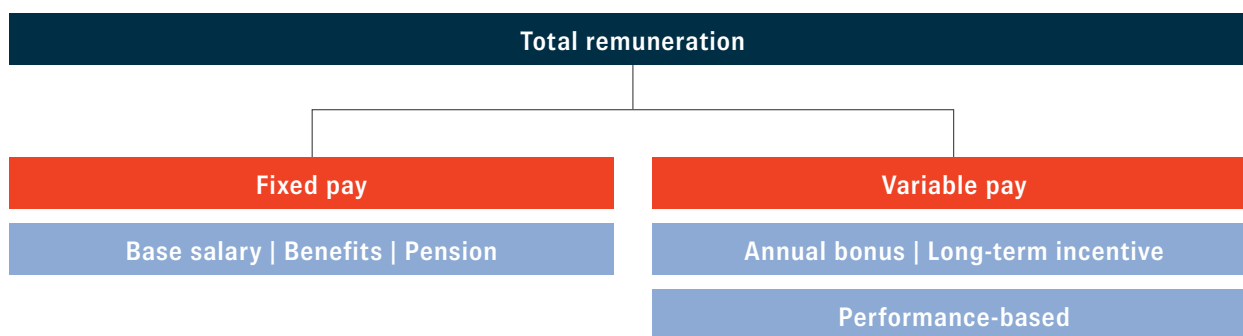
3 Total remuneration for 2022 has been restated to reflect the actual number of 2019 PSP awards which vested on 14 March 2022 and 16 August 2022 using the actual share prices on the day of vesting. The restated value for the March and August awards, based on the actual share prices of £30.91 and £27.14, respectively, provides a difference of approximately £(2.99) and £(6.76) per vested share in comparison to the estimates contained in the 2021 Report & Accounts which were based on the average three-month share price for the year ended 31 December 2021, which was £33.90. Further details of total remuneration is provided on page 213.

REMUNERATION DECISIONS IN CONTEXT

The Committee is kept informed of salary increases for the wider workforce, as well as any significant changes in practice or policy, which is taken into consideration when making remuneration decisions for Executive Directors. The Committee has introduced this dedicated section (pages 207 to 209) which incorporates several disclosures to demonstrate the Committee’s belief that remuneration arrangements for Executive Directors are fair and appropriate in the context of pay policies and practices across the wider workforce.

Executive Directors’ remuneration

Remuneration for Executive Directors comprise the following elements:



Remuneration structure for the wider workforce

The remuneration structure for our wider workforce is similar to that of our Executive Directors and contains both fixed and performance-based elements.

Element	How operated
Base salary	We value and appreciate our employees and aim to provide market competitive remuneration and benefit packages in order to continue to be seen as an employer of choice. Base salaries are reviewed annually and any increases normally become effective from 1 January.
Benefits	All employees receive private medical insurance, dental care and are invited into a non-contractual healthcare cash plan which offers an affordable way to help with everyday healthcare costs. In 2022, we introduced an Electric Car Salary Sacrifice Scheme which allows any member of staff to lease a new electric car in a tax efficient way.
Pension	All employees are eligible to participate in our non-contributory occupational pension scheme operated as a Master Trust with Fidelity. Fidelity offers all employee members of the pension scheme ongoing support and training opportunities in respect of their pension and investments. All employees (including Executive Directors) are eligible to receive an employer pension contribution equal to 15% of salary per annum.
Annual bonus	We enrol all of our employees into an annual discretionary bonus scheme. We reward our employees based on their individual performance and their contribution to the performance of the Group. In 2022, 100% of our workforce below Board level (not subject to probation) received an annual bonus (2021: 100%).
Long-term incentive	In order to align the interests of our employees and those of our shareholders, we operate an Employee Share Option Plan (ESOP). Employees, excluding the Directors, are eligible to join the ESOP subject to performance. The ESOP grants options which are exercisable after three years at a pre-agreed option price. In 2022, we granted 249,950 options to 93% of our employees below the Board and Executive Committee (2021: 198,800 options to 78% of our employees). Further information is on pages 257 and 258.
Sharesave Plan	To encourage Group-wide share ownership, the Company operates a HMRC tax efficient Sharesave Plan which was approved by shareholders at the 2018 AGM. The fourth grant under the Sharesave Plan was made on 21 September 2022, with employees saving on average £118 per month. As at 1 January 2023, 127 employees are saving into our Sharesave Plan (c.72% of eligible employees).

Salary increases and cost of living considerations

Taking into account the inflationary increases in the UK, the average increase in base salaries for the wider workforce was 6.1%, effective from 1 January 2023. In October 2022, the Directors approved the payment of a one-off gross non-pensionable payment of £1,000 to all employees (not under notice) with a full-time equivalent base salary of £55,000 or less. The payment was aimed to offer additional help to employees where it was believed the economic burden of the current ‘cost of living crisis’ would be most challenging. Derwent London has been London Living Wage Foundation accredited since 2017.

REMUNERATION COMMITTEE REPORT continued

ANNUAL REPORT ON REMUNERATION continued

Percentage change in remuneration

The table below shows the annual percentage change in the salary or fees, benefits and annual bonus, for each of the Directors compared to that for an average employee, from 2019 to 2022. The Directors' remuneration used to calculate the percentage change is taken from the 'single figure' table on page 213. As noted on page 190, the vesting outcome of the relative total return element of the 2022 annual bonus is still to be determined by the Committee. The annual percentage change in bonus between 2021 and 2022 has therefore been calculated based on the vesting outcome of the relative total property return and strategic elements only for the 2022 bonus. Full details of the vesting outcome of the total return element (which may range between 0% and 100% vesting) and total bonus earned in respect of 2022 will be disclosed in the 2023 Report & Accounts.

% change	2021 to 2022			2020 to 2021			2019 to 2020		
	Salary/Fees	Benefits ¹¹	Bonus ¹²	Salary/Fees	Benefits	Bonus	Salary/Fees	Benefits	Bonus
Average employee ¹	+1.4% ²	(9.9)%	(24.5)%	+0.3%	(3.7)%	+22.5%	+4.7%	(6.2)%	(21.0)%
Executive Directors									
Paul Williams	+3.0%	(7.0)%	+84%	+2.0%	(0.2)%	(52.5)%	+10.5% ³	+0.1%	(24.4)%
Damian Wisniewski	+3.0%	+1.0%	+84%	+2.0%	(0.2)%	(52.5)%	+3.7%	(1.4)%	(29.0)%
Nigel George	+3.0%	+0.7%	+84%	+2.0%	(0.0)%	(52.5)%	+3.7%	(3.9)%	(29.0)%
Emily Prideaux ⁴	+9.8%	+20.0%	+133%	n/a	n/a	n/a	n/a	n/a	n/a
Former Executive Directors									
David Silverman	n/a ⁵	n/a	n/a	+2.0%	(0.2)%	(52.5)%	+3.7%	(1.7)%	(29.0)%
Non-Executive Directors⁶									
Mark Breuer ⁷	0%	-	-	n/a	-	-	n/a	-	-
Richard Dakin	+15.7%	-	-	0%	-	-	0%	-	-
Claudia Arney	+16.2%	-	-	0%	-	-	0%	-	-
Cilla Snowball	+15.7%	-	-	0%	-	-	0%	-	-
Helen Gordon	+10.7%	-	-	+3.0% ⁸	-	-	0%	-	-
Lucinda Bell	+16.2%	-	-	0%	-	-	+6.0% ⁹	-	-
Sanjeev Sharma ¹⁰	+13.5%	-	-	n/a	-	-	n/a	-	-

Average employee calculation

- The annual percentage change for the average employee is calculated based on the mean employee pay for employees of Derwent London plc, the parent company of the Group, and not those employed by other subsidiary companies, on a full-time equivalent basis. The average employee salary increase includes employees who were not eligible for a salary increase (i.e. new joiners and leavers, depending on the date of joining or leaving the Group).
- The average employee salary figures for 2021 to 2022 has been impacted by a 13% increase in our workforce (from 163 to 184 employees). The average actual increase in base salaries for all employees effective from 1 January 2022 was c.3.2%.

Executive Director base salaries

- Paul Williams' salary was increased from £442,000 to £600,000 effective from his appointment as CEO on 17 May 2019.
- Emily Prideaux was appointed an Executive Director on 1 March 2021 and therefore the percentage change in remuneration for 2019 to 2020 and 2020 to 2021 is not applicable. Emily's percentage change in annual bonus from 2021 to 2022 reflects that her 2021 annual bonus was for the period 1 March to 31 December 2021 only. As detailed on page 177 of the 2021 Report & Accounts, Emily's salary was increased by 9.8% to £450,000 with effect from 1 January 2022.
- David Silverman did not receive a salary increase effective from 1 January 2022 as he stepped down from the Board on 14 April 2022.

Non-Executive Director fees

- The fees payable to Non-Executive Directors were increased effective from 1 January 2022 (the previous increase to Non-Executive Director base fees was with effect from 1 January 2019 and the previous increase to the committee chair and membership fees were with effect from 1 January 2015).
- Mark Breuer was appointed to the Board as Chairman Designate on 1 February 2021 and then took over the role of Chairman from 14 May 2021. Therefore, the percentage change in remuneration for 2019 to 2020 and 2020 to 2021 is not applicable.
- The percentage change in fee for 2020 to 2021 for Helen Gordon relates to her appointment as Senior Independent Director effective from 31 October 2021.
- The percentage change in fee for 2019 to 2020 for Lucinda Bell relates to her appointment as Audit Committee Chair from 17 May 2019.
- Sanjeev Sharma was appointed a Non-Executive Director on 1 October 2021 and therefore the percentage change in remuneration for 2019 to 2020 and 2020 to 2021 is not applicable.

Benefits

- There has been no change in the benefits received by the average employee or the Executive Directors. The change in the annual cost is due to the cost of purchasing private medical and life insurance. Non-Executive Directors and the Chairman did not receive taxable benefits during the relevant years.

Bonus

- The 24.5% reduction in annual bonus for employees from 2021 to 2022 is calculated based on the mean average. The actual 2022 bonus pot for employees was 8% lower than in 2021. The percentage change in annual bonus has been impacted by the 13% increase in our workforce in 2022 (from 163 to 184 employees).

Chief Executive pay ratio

As Derwent London has less than 250 employees, we are not required to disclose the CEO pay ratio. However, given our commitment to high standards of transparency and corporate governance, the Committee considers it appropriate to disclose the CEO pay ratio voluntarily. For the years ended 31 December 2018 to 31 December 2022, the Chief Executive's total remuneration as a ratio against the full-time equivalent remuneration of UK employees is detailed in the table below.

As noted on page 190 the vesting outcome of the relative total return element of the 2022 annual bonus is still to be determined by the Committee. The 2022 total remuneration figure for the Chief Executive and CEO pay ratio is therefore based on the vesting outcome of the relative total property return and strategic elements of the 2022 bonus only. Full details of the vesting outcome of the total return element (which may range between 0% and 100% vesting) and total bonus earned in respect of 2022 will be disclosed in the 2023 Report & Accounts.

	Employee remuneration ⁵		CEO pay ratio ⁶
	Base salary	Total remuneration	
Year ended 31 December 2022^{1,2}			
25th percentile	£45,219	£60,909	21:1
50th percentile	£56,000	£81,266	16:1
75th percentile	£80,000	£124,481	10:1
Year ended 31 December 2021			
25th percentile	£48,500	£67,908	19:1
50th percentile	£63,750	£90,289	14:1
75th percentile	£91,750	£143,168	9:1
Year ended 31 December 2020³			
25th percentile	£47,000	£62,499	35:1
50th percentile	£64,000	£86,463	26:1
75th percentile	£95,266	£137,452	16:1
Year ended 31 December 2019⁴			
25th percentile	£40,993	£63,211	40:1
50th percentile	£68,462	£89,274	28:1
75th percentile	£67,500	£153,828	17:1
Year ended 31 December 2018			
25th percentile	£45,057	£58,237	38:1
50th percentile	£59,250	£76,842	29:1
75th percentile	£75,000	£148,867	15:1

1 Employee remuneration at each percentile has been impacted by a 13% increase in our workforce (from 163 to 184 employees) in the year ended 31 December 2022.

2 Chief Executive remuneration for the year ended 31 December 2022 is Paul Williams' 2022 'single figure' (see page 213).

3 Chief Executive remuneration for the year ended 31 December 2020 is Paul Williams' 2020 'single figure' (see page 181 of the 2021 Report & Accounts), before the voluntary 20% salary waiver.

4 Chief Executive remuneration for the year ended 31 December 2019 is based on the aggregated total remuneration earned by John Burns and Paul Williams in respect of their tenures as Chief Executive during 2019.

5 The workforce comparison is based on the payroll data for the period 1 January to 31 December for all employees (including the Chief Executive but excluding the Non-Executive Directors) and includes salary, employer pension contributions, life assurance and the healthcare cash plan, annual bonuses earned in respect of the year and one-off gains received through the exercise of options granted under the Employee Share Option Plan (see pages 207, 257 and 258).

6 The CEO pay ratio has been rounded to the nearest whole number.

For each year, the Company has calculated the ratio in line with the reporting regulations using 'Method A' (determine total full-time equivalent remuneration for all UK employees for the relevant financial year as at 31 December; rank the data and identify employees whose remuneration places them at the 25th, 50th and 75th percentile). This method was used due to being the most accurate way of calculating the ratio. The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Further information on the remuneration structure for our wider workforce is on the following pages:

- [SHARESAVE PLAN / See page 220](#)
- [EMPLOYEE SHARE OPTION PLAN / See pages 257 and 258](#)
- [OUR EMPLOYEES / See page 59](#)

REMUNERATION COMMITTEE REPORT continued

ANNUAL REPORT ON REMUNERATION continued

IMPLEMENTATION OF REMUNERATION POLICY FOR 2023

Base salaries

With effect from 1 January 2023, the Executive Directors' salaries (excluding Emily Prideaux and Paul Williams) were increased by 4% to £524,500. The average salary increase for the wider workforce was 6.1%.

Since Paul Williams' appointment to CEO in May 2019, the Committee has disclosed its commitment to keep Paul's salary level under review as he developed and gained experience in the role with a view to moving his salary level closer to the market rate over time. As a result of its latest review, the Committee approved a 7.8% increase to Paul's salary from 1 January 2023. Further information in respect of the Committee's rationale is on pages 191 and 192.

The Committee approved a 9.4% increase to Emily Prideaux's salary from 1 January 2023, as part of a phased alignment with the other Executive Directors' salaries. The Committee intends to fully align Emily's salary with the other Executive Directors' salaries by 1 January 2024 subject to continued strong performance. Further information is on page 192.

	2023 salary £'000	2022 salary £'000	% increase
Average employee			6.1
Executive Directors			
Paul Williams	680.0	630.4	7.8
Damian Wisniewski	524.5	504.3	4.0
Nigel George	524.5	504.3	4.0
Emily Prideaux	492.5	450.0	9.4

Chairman and Non-Executive Director fees

Mark Breuer's inclusive Chairman fee for 2023 is £250,000 per annum and remains unchanged from 2022. In light of the changes made to Non-Executive Director fees effective from 1 January 2022, there will be no change to the Non-Executive Director fees in 2023.

	2023 fee £'000	2022 fee ¹ £'000	% increase
Board Chairman fee	250.0	250.0	0.0
Non-Executive Director fees			
Base fee	52.5	52.5	0.0
Committee Chair	10.0	10.0	0.0
Senior Independent Director	10.0	10.0	0.0
Committee membership fee	5.0	5.0	0.0

¹ The fees payable to Non-Executive Directors were increased effective from 1 January 2022: the base fee increased by £5,000 to £52,500, the committee chair fee increased by £2,500 to £10,000, and the committee membership fee increased by £1,000 to £5,000.

In addition to their chairmanship fee, a Committee Chair also receives the Committee membership fee. The Senior Independent Director fee was last increased with effect from 1 January 2019.

Richard Dakin will step down from the Board on 28 February 2023. Richard will receive his normal fees for the period 1 January 2023 until his leaving date. There will be no payment for loss of office in respect of Richard's departure.

Benefits and pension

Benefits will continue to include a fully expensed car or car allowance, private medical insurance and life assurance. Company pension contribution and/or cash supplement for the Executive Directors remains aligned with the majority of the wider workforce (currently at 15% of salary).

Annual bonus

The maximum bonus potential for Executive Directors for 2023 is 150% of salary. In line with recent years, bonuses are subject to the following performance metrics:

Performance measure	Weighting % of bonus	Targets
Total return	37.5	Performance measured against a comparator group of real estate companies. Targets and amounts vesting for threshold and maximum performance are outlined on page 215.
Total property return	37.5	Performance measured against the MSCI Quarterly Central London Offices Total Return Index. Targets and amounts vesting for threshold and maximum performance are outlined on page 215.
Strategic targets	25.0	The Committee believes that the strategic targets (see table below) provide an appropriate balance against strategic priorities which drive net rental income and future development opportunities, and continued focus on health and safety and workplace culture.

2023 strategic targets

The number of strategic targets for 2023 have been reduced (compared to 2022) to simplify our remuneration arrangements and to reflect that climate-related targets have been introduced within the PSP (see page 212).

Accident rate has been expanded to capture all of the Group's activities including development, construction projects and the managed portfolio and contains a 'performance underpin', whereby pay-out for this element will only be achieved if each Executive Director completes a health and safety Leadership Tour during 2023.

Performance measure	Link to strategic objectives ¹	Target range ²	Maximum award
Void management This is measured by the Group's average EPRA vacancy rate over the year.	1.2.	10% to 2%	5.0%
Tenant retention This is measured by the percentage of tenants that remain in their space when their lease expires or the space is re-let during the reporting period.	1.2.	50% to 75%	5.0%
Staff satisfaction Staff surveys are used to assess this measure. In assessing this target the Committee will consider any variance in staff satisfaction scores between genders.	3.	80% to 90%	4.0%
Accident rate The Group's Accident Frequency Rate which is calculated based on total development, construction projects and managed portfolio RIDDOR injuries and incidents during the year, multiplied by 1,000,000, and divided by 'total work exposure hours'. This target is also conditional on each Executive Director completing a health and safety Leadership Tour during 2023.	4.	4.4 to 2.1	4.0%
Portfolio development potential This is measured by the percentage of the Group's portfolio by area where a potential development scheme has been identified, including committed acquisitions.	1.	35% to 50%	7.0%
			25%

¹ Success against our strategic objectives is measured using our KPIs (see pages 45 to 49) and rewarded through our incentive schemes and annual bonus. The references above show the link between our strategic objectives and our annual bonus targets (further information on our five strategic objectives can be found on pages 38 to 44).

² Payout accrues on a broadly straight-line basis, between threshold and maximum performance.

Bonus deferral

Under the new Remuneration Policy, Executive Directors will be required to defer any annual bonus earned above 75% of salary into shares for three years. This refinement means that any bonus earned above target performance (i.e. 50% of maximum) will be deferred, with 50% of the bonus total deferred at maximum performance. In addition, until the within-employment shareholding guideline is met, Executive Directors are required to retain at least half of any deferred bonus shares or PSP shares which vest (net of tax).

REMUNERATION COMMITTEE REPORT continued

ANNUAL REPORT ON REMUNERATION continued

Long-term incentives

The maximum PSP award potential for Executive Directors for 2023 is 200% of salary.

As noted on pages 191 and 192, staying ahead of the sustainability curve, and delivering on our net zero carbon commitments, is a fundamental part of Derwent London's long-term strategy. The Committee has therefore introduced embodied carbon reduction and energy intensity reduction performance metrics into the PSP, alongside relative Total Shareholder Return and Total Property Return as follows:

- Total Shareholder Return (50%)
- Total Property Return (40%)
- Embodied carbon and energy intensity reduction (10%)

This balance of performance metrics reflects Derwent London's continued focus on delivering above average long-term returns to shareholders, together with our commitment to sustainability and ambition to be a net zero carbon business by 2030.

The targets for Total Shareholder Return and Total Property Return remains the same as for the 2022 PSP awards detailed on page 218. However, for PSP awards granted in 2023 and subsequent years, the Committee will exclude agencies and/or services-based organisations from the TSR comparator group, as they have different business models compared to Derwent London and other real estate companies.

The embodied carbon and energy intensity reduction targets are aligned with the business' science-based milestone targets to achieve net zero by 2030 and are as follows:

Measure	Weighting % of PSP	Threshold	Maximum ³
Embodied carbon ¹ (new-build commercial office)	5%	600 kg CO ₂ e/m ²	500 kg CO ₂ e/m ²
Energy intensity ² reduction (managed properties)	5%	average energy intensity of 129 kWh/m ² across 2023, 2024 and 2025	average energy intensity of 126 kWh/m ² across 2023, 2024 and 2025

¹ Calculated based on an overall weighted average embodied carbon performance for all live projects during the performance period.

² Energy intensity is assessed based on the end of year energy (gas and electricity) consumption of the managed portfolio.

³ Vesting accrues on a straight-line basis, between threshold (22.5% of maximum) and maximum performance.

Our embodied carbon and energy intensity performance will be independently assured by an external third party. During consultation on the new Remuneration Policy, a shareholder requested clarity on the impact of carbon offsets on the new performance metrics. We can confirm that the purchasing of carbon offsets would not affect the outcome of the embodied carbon or energy intensive reduction performance metrics.

Related information is on the following pages:

➤ NET ZERO CARBON / See page 27

➤ STREAMLINED ENERGY AND CARBON REPORTING (SECR) DISCLOSURE / See page 69

➤ ENVIRONMENTAL / See page 52

EXECUTIVE DIRECTORS' REMUNERATION IN 2022

Total remuneration (audited)

The table below sets out the remuneration paid to each Director for the financial years ended 31 December 2022 and 31 December 2021 as a single figure. A full breakdown of fixed pay and pay for performance in 2022 can be found on pages 214 to 221. As noted on page 190 the vesting outcome of the relative total return element of the 2022 annual bonus is still to be determined by the Committee. The 2022 bonus figure is therefore based on the vesting outcome of the relative total property return and strategic elements only. Full details of the vesting outcome of the total return element (which may range between 0% and 100% vesting) and total bonus earned in respect of 2022 will be disclosed in the 2023 Report & Accounts.

Executive Directors

(£'000)	Fixed pay				Pay for performance						Total remuneration
	Salary	Taxable benefits	Pension and life assurance	Subtotal	Bonus			Other items in the nature of remuneration ⁴	Subtotal		
					Cash	Deferred	Performance LTIPs ^{1,2,3}				
2022											
Paul Williams	630	22	109	761	521	–	–	521	2	1,284	
Damian Wisniewski	504	23	86	613	417	–	–	417	2	1,032	
Nigel George	504	22	88	614	417	–	–	417	2	1,033	
Emily Prideaux	450	19	76	545	372	–	–	372	2	919	
Former Executive Director											
David Silverman	141	6	25	173	–	–	–	–	–	173	
2021											
Paul Williams	612	23	121	756	284	–	198	482	–	1,238	
Damian Wisniewski	490	23	95	608	227	–	162	389	1	998	
Nigel George	490	22	97	609	227	–	162	389	–	998	
Emily Prideaux ⁵	342	15	57	414	159	–	44	203	3	620	
David Silverman	490	21	96	607	227	–	162	389	–	996	

Non-Executive Directors

(£'000)	2022			2021		
	Fees	Taxable benefits	Total	Fees	Taxable benefits	Total
Mark Breuer ⁶	250	–	250	173	–	173
Richard Dakin	78	–	78	67	–	67
Claudia Arney	83	–	83	71	–	71
Cilla Snowball	78	–	78	67	–	67
Helen Gordon	77	–	77	57	–	57
Lucinda Bell	83	–	83	71	–	71
Sanjeev Sharma ⁷	72	–	72	15	–	15

1 Performance LTIPs for 2022 relate to the 2020 PSP awards for which the performance conditions related to the year ended 31 December 2022. As the performance conditions have not been satisfied, the 2020 PSP awards will lapse on 13 March 2023 (see page 217).

2 In the 2021 Report & Accounts, the potential value of 2019 PSP awards which vested on 14 March 2022 and on 16 August 2022, for which the performance conditions related to the year ended 31 December 2021, was calculated using the average share price for the three months ended 31 December 2021, being £33.90. The 2021 Performance LTIPs figures in the table above have been restated to reflect the actual number of 2019 PSP awards which vested during 2022 using the share price on the day of vesting. The restated value for the March and August awards, based on the actual share prices of £30.91 and £27.14, respectively, provides a difference of £(2.99) and £(6.76) per vested share in comparison to the estimates contained in the 2021 Report & Accounts. Further details of vesting is provided on page 219.

3 The share price for the March and August awards was £32.53 and £29.42, respectively. Between grant and the vesting dates of 14 March 2022 and 16 August 2022, the share price had fallen to £30.91 and £27.14, respectively, which equated to a reduction in the value of each vesting share equivalent to £1.62 and £2.28. None of the value disclosed in the single figure is therefore attributable to share price growth.

4 Included in the column for 'other items in the nature of remuneration' is the grant under the Derwent London Sharesave Plan made on 21 September 2022. These have been calculated based on the middle market share price on the date of grant being £23.26 minus the value of the awards at the option price which was £19.61. Further information on the Derwent London Sharesave Plan is on page 220.

5 Emily Prideaux was appointed an Executive Director on 1 March 2021. The remuneration for 2021 is the actual remuneration paid to Emily Prideaux for the period 1 March 2021 to 31 December 2021.

6 For the period 1 February 2021 to 14 May 2021, Mark Breuer as Chairman Designate received a base fee of £47,500 per annum and a committee membership fee of £4,000 per annum. From 14 May 2021, Mark Breuer took over the role of Non-Executive Chairman. His inclusive Chairman fee from this date was £250,000 per annum.

7 Sanjeev Sharma was appointed a Non-Executive Director on 1 October 2021. The fees for 2021 shown in the table above are the actual fees paid to Sanjeev Sharma for the period 1 October 2021 to 31 December 2021.

REMUNERATION COMMITTEE REPORT continued

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Payments to former Directors and for loss of office

No payments were made in respect of loss of office during 2022. As disclosed in the 2021 Report & Accounts, PSP awards granted on 13 March 2020 to former Executive Directors Simon Silver and David Silverman remained capable of vesting (see page 217). For the period 1 March 2021 to 31 December 2022, Simon Silver was employed as an adviser reporting to Paul Williams and was paid a salary of £150,000 per annum for this role. Simon's contract has been extended to 31 December 2023 for which he will receive a salary of £50,000 per annum.

Fixed pay in 2022 (audited)

Base salaries and fees

Salaries for the Executive Directors were increased by 3.0% with effect from 1 January 2022 (with the exception of Emily Prideaux). All eligible employees received at least a 3.2% salary increase from 1 January 2022.

Emily Prideaux was appointed an Executive Director on 1 March 2021. Emily's salary was positioned below the other Executive Directors on appointment. As detailed on page 177 of the 2021 Report & Accounts, Emily's salary was increased by 9.8% to £450,000 (from £410,000) with effect from 1 January 2022. Further information on the intended phased alignment of Emily's salary with the other Executive Directors' salaries is on page 192.

The fees payable to Non-Executive Directors were increased effective from 1 January 2022 (see page 210).

	2022 base salary/fee	2021 base salary/fee
Executive Directors		
Paul Williams	£630,400	£612,000
Damian Wisniewski	£504,300	£489,600
Nigel George	£504,300	£489,600
Emily Prideaux ³	£450,000	£341,667
Former Executive Director		
David Silverman ²	£141,231	£489,600
Non-Executive Directors		
Mark Breuer ³	£250,000	£172,605
Richard Dakin	£77,500	£67,000
Claudia Arney	£82,500	£71,000
Cilla Snowball	£77,500	£67,000
Helen Gordon ¹	£76,666	£57,167
Lucinda Bell	£82,500	£71,000
Sanjeev Sharma ^{1,3}	£71,666	£14,875

1 Helen Gordon and Sanjeev Sharma were appointed members of the Risk and Remuneration Committee, respectively, on 1 March 2022.

2 David Silverman did not receive a salary increase effective from 1 January 2022. He received a base salary of £489,600 per annum until he stepped down from the Board on 14 April 2022. The 2022 base salary shown in the table above is the actual salary paid to David Silverman for the period 1 January to 14 April 2022.

3 Mark Breuer, Emily Prideaux and Sanjeev Sharma were appointed to the Board on 1 February, 1 March and 1 October 2021, respectively. The base salaries and fees shown in the table above are the actual salaries and fees paid to them for the periods they were Directors.

Benefits

Executive Directors are entitled to a car and fuel allowance, private medical insurance and life assurance. Further details of the taxable benefits paid in 2022 can be found in the table below.

	Car and fuel allowance	Private medical insurance	Total 2022 taxable benefits
Executive Directors			
Paul Williams	£16,000	£5,852	£21,852
Damian Wisniewski	£16,000	£7,011	£23,011
Nigel George	£16,000	£6,318	£22,318
Emily Prideaux	£16,000	£2,722	£18,722
Former Executive Director			
David Silverman ¹	£4,615	£1,649	£6,264

1 David Silverman stepped down from the Board on 14 April 2022, therefore his benefits shown in the table above are for the period 1 January to 14 April 2022.

Pension and life assurance

Paul Williams, Damian Wisniewski and Nigel George each received a cash supplement of 15% of salary. Emily Prideaux and David Silverman received £4,000 and £1,333 respectively, into the Group's defined contribution scheme, being the Fidelity Master Trust pension scheme, with the remainder of their entitlement paid as a cash supplement. No other Directors are accruing benefits under a money purchase pension scheme.

There was no change in the life assurance benefits received by the Executive Directors in 2022. The change in the annual cost is due to changes in life assurance premiums.

Pay for performance (audited)

Determination of 2022 annual bonus outcome

The performance measures set for the year under review were a combination of financial-based metrics (worth 75% of the bonus potential) and strategic targets (worth 25% of the bonus potential). The maximum bonus potential for Executive Directors is 150% of salary.

Total return performance is measured against a comparator group of real estate companies (see footnote 1 below for details). A robust methodology for assessing the Group's total return performance against the comparator group has been applied consistently for a number of years which includes, for a number of the comparators, an estimate of performance to 31 December 2022. However, in light of current volatility and uncertainty in respect of property valuations, the Committee has decided to delay the assessment of the performance of the total return performance of the comparator group until more published information is available. The Committee has therefore not yet determined the Group's relative performance and vesting outcome as at the date of this report.

The Committee will determine the vesting outcome of the relative total return element in the coming months, when it has greater clarity in respect of comparator group total return performance. Full details of the vesting outcome of the relative total return element (which may range between 0% and 100% of maximum) and total bonus earned in respect of 2022 will be disclosed in the 2023 Report & Accounts.

Based on performance against the total property return and strategic targets, the Executive Directors each earned a bonus equal to 82.7% of salary. The Executive Directors may ultimately earn a bonus up to 139% of salary depending on the vesting outcome of the relative total return element.

2022 annual bonus outcome

Bonus payable for financial-based performance (see below)	37.5% out of 37.5%
Bonus payable for strategic target performance (see page 216)	17.6% out of 25%

The Committee considered the formulaic performance outcome alongside broader perspectives including: underlying business performance and affordability; the experience of shareholders; and the experience of employees and other stakeholders. Points specifically considered are set out in the Chair's Annual statement on pages 190 and 191.

The Committee determined that it was not appropriate to apply discretion to adjust the formulaic outcome.

Financial-based metrics

Performance measure	Weighting % of bonus	Basis of calculation	Threshold ² %	Maximum ³ %	Actual %	Payable %
Total return	37.5	Total return versus other major real estate companies ¹	–	–	–	Not determined
Total property return (TPR)	37.5	Versus the MSCI Quarterly Central London Office Total Return Index	(8.0)	(6.0)	(3.4)	37.5
Total bonus payable for financial-based metrics						37.5

1 The major real estate companies contained in the comparator group for the 2022 and 2023 annual bonus are: Big Yellow Group plc, The British Land Company plc, Capital & Counties Properties plc, CLS Holdings plc, Great Portland Estates plc, Hammerson plc, Helical plc, Landsec plc, LondonMetric Property plc, Segro plc, Shaftesbury plc, UK Commercial Property, Unite Group plc and Workspace Group plc.

2 For achieving the threshold performance target, i.e. at the MSCI Index or median total return against our sector peers, 22.5% of the maximum bonus opportunity will become payable.

3 Total return payout accrues on a straight-line basis between the threshold level for median performance and maximum payment for upper quartile performance or better. For TPR, the payout accrues on a straight-line basis between the threshold level for Index performance and maximum payment for Index +2%.

REMUNERATION COMMITTEE REPORT continued

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Strategic targets

Performance measure	Link to strategic objectives ¹	Target range ²	Maximum award	2022 achievement	Proportion awarded for 2022
Void management This is measured by the Group's average EPRA vacancy rate over the year	1.2.	10% to 2%	5.0%	6.4%	2.3%
Tenant retention This is measured by the percentage of tenants that remain in their space when their lease expires or the space is re-let during the reporting period	1.2.	50% to 75%	5.0%	79.0%	5.0%
Staff satisfaction Staff surveys are used to assess this measure. In assessing this target the Committee will consider any variance in staff satisfaction scores between genders ³	3.	80% to >95% of staff to be satisfied or better	2.5%	88.5%	1.4%
Accident rate The Accident Frequency Rate, which is calculated based on the number of development RIDDOR injuries during the year multiplied by 1,000,000 and divided by 'work hours'	4.	65% to 75% of the latest industry benchmark ⁴	2.5%	>75% of the latest industry benchmark	0.0%
Portfolio development potential This is measured by the percentage of the Group's portfolio by area where a potential development scheme has been identified	1.	35% to 50%	2.5%	43.2%	1.4%
Carbon intensity This is measured by emissions intensity per m ² of landlord-controlled floor area across our managed like-for-like portfolio, against the rolling three-year average	4.	-5% to -10%	5.0%	-16%	5.0%
Energy intensity This is measured by energy consumption (kWh) per m ² of landlord-controlled floor area across our managed like-for-like portfolio, against the rolling three-year average	4.	-2% to -4%	2.5%	-13%	2.5%
			25%		17.6%

1 Success against our strategic objectives is measured using our KPIs (see pages 45 to 49) and rewarded through our incentive schemes and annual bonus. The references above show the link between our strategic objectives and our annual bonus targets (further information on our five strategic objectives can be found on pages 38 to 44).

2 Payout accrues on a broadly straight-line basis, between threshold and maximum performance.

3 The variance between genders in response to employee surveys is taken into account by the Committee when determining the payout for staff satisfaction. In 2022, the results showed a 3.0% variance between genders, with female satisfaction being at 90.3% and male satisfaction at 87.3%.

4 The latest industry benchmark for AFR relates to the financial year ending 31 March 2022, as the majority of our peers have a March year end.

In accordance with our current Remuneration Policy, bonuses of up to 100% of base salary are paid as cash. Amounts in excess of 100% are deferred into shares and released after three years, subject to continued employment. The total bonus for each Executive Director based on performance against the total property return and strategic elements is therefore:

	Bonus payable as % of salary	Cash bonus payable (£'000)	Deferred bonus	
			£'000	% of salary
Executive Directors				
Paul Williams	82.7	521	–	–
Damian Wisniewski	82.7	417	–	–
Nigel George	82.7	417	–	–
Emily Prideaux	82.7	372	–	–

1 David Silverman was not eligible to receive a bonus in respect of the period 1 January to 14 April 2022 (the date that he stepped down as an Executive Director).

Performance Share Plan (PSP) (audited)

Vesting of PSP awards

The Group granted share-based awards under the PSP on 13 March 2020. The grant was subject to performance conditions over a three-year performance period which ended on 31 December 2022. As shown in the table below, the PSP awards granted in 2020 will not vest, and will lapse in full on 13 March 2023.

Overall, the Committee considers that the Remuneration Policy has operated as it intended during 2022 and that the pay outcomes are aligned with the experience of shareholders, employees and other stakeholders. The Committee determined that it was not appropriate to apply discretion to adjust the formulaic outcome.

Performance measure	Weighting % of award	Basis of calculation	Threshold ² %	Maximum ³ %	Actual %	% vesting/ estimated vesting
Total property return (TPR)	50	MSCI Quarterly UK All Property Total Return Index	1.19	3.19	0.99	0.0
Total shareholder return (TSR)	50	FTSE 350 Super Sector Real Estate Index ¹	(17.7)	(0.8)	(33.2)	0.0

1 The constituents of the FTSE 350 Super Sector Real Estate Index as at the start of the Performance Period (i.e. 1 January 2020).

2 For achieving the threshold performance target, i.e. at the MSCI Index or median TSR against our sector peers, 22.5% of the maximum award will vest.

3 For TSR (which is calculated based on a three-month weekday average Return Index excluding UK public holidays ended on: (1) the day before the performance period start date; and (2) the performance period end date) vesting accrues on a straight-line basis between the threshold level for median performance and maximum level for upper quartile performance or better. For TPR, vesting accrues on a straight-line basis between the threshold level for Index performance and maximum level for Index +2%.

Therefore, the vesting for each Executive Director will be:

Executive Directors	Number of awards granted	Number of shares vesting based on performance (0.0%)
Paul Williams	36,210	–
Damian Wisniewski	28,968	–
Nigel George	28,968	–
Emily Prideaux ¹	9,052	–
Former Executive Directors²		
Simon Silver	35,063	–
David Silverman	28,968	–

1 Emily Prideaux's PSP award was granted in respect of her role prior to being appointed an Executive Director.

2 As disclosed in the 2021 Report & Accounts, PSP awards granted on 13 March 2020 to former Executive Directors Simon Silver and David Silverman remained capable of vesting, subject to performance. Awards for Simon Silver and David Silverman would have been subject to a pro rata reduction to take into account time served during the vesting period and be subject to the normal holding period of two years.

Holding period

In accordance with the PSP rules, vested awards are subject to a two-year holding period whereby at least the after-tax number of vested shares must be retained by the executive for a minimum of two years from the point of vesting. As the 2020 Grant will lapse in full, it has been removed from the table below.

Grant	Grant date	Performance period	Vesting date	Holding period	Holding period ceases
2018 Grant	6 March 2018	1 January 2018 to 31 December 2020	8 March 2021	Two years	8 March 2023
2019 Grants	12 March 2019 14 August 2019	1 January 2019 to 31 December 2021	12 March 2022 14 August 2022	Two years	12 March 2024 14 August 2024
2021 Grant	12 March 2021	1 January 2021 to 31 December 2023	12 March 2024	Two years	12 March 2026
2022 Grant	9 March 2022	1 January 2022 to 31 December 2024	9 March 2025	Two years	9 March 2027

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Grant of PSP awards

On 9 March 2022, the Committee made an award under the Group's 2014 PSP to Executive Directors on the following basis:

Executive Directors	Number of shares awarded	Face value of award £
Paul Williams	42,942	1,260,777
Damian Wisniewski	34,352	1,008,575
Nigel George	34,352	1,008,575
Emily Prideaux	30,653	899,972

Awards were granted as nil-cost options and equivalent to 200% of base salary, with 22.5% of the award vesting at threshold performance. The share price used to determine the level of the awards was the closing share price on the day immediately preceding the grant date of £29.36. The performance period will run over three financial years ending on 31 December 2024 and, dependent upon the achievement of the performance conditions, the awards will vest on 9 March 2025 and will be subject to a two-year holding period as outlined in the table on page 217.

50% of the award vests according to the Group's relative TSR performance versus the constituents of the FTSE 350 Super Sector Real Estate Index with the following vesting profile:

TSR performance of the Company relative to the TSR of the constituents of the FTSE 350 Super Sector Real Estate Index tested over three-year performance period ending 31 December 2024	Vesting (% of TSR part of award)
Below Median	0%
Median	22.5%
Upper quartile and above	100%
Straight-line vesting occurs between these points	

50% of the award vests according to the Group's TPR versus the MSCI Quarterly UK All Property Total Return Index with the following vesting profile:

Annualised TPR versus the MSCI Quarterly UK All Property Index tested over three years	Vesting (% of TSR part of award)
Below Index	0%
At Index	22.5%
Index + 2%	100%
Straight-line vesting occurs between these points	

The Committee has discretion to reduce the extent of vesting in the event that it considers that performance against either measure is inconsistent with underlying financial performance and/or the experience of key stakeholders. At least the after-tax number of vested shares must be retained for a minimum holding period of two years. To the extent that awards vest, the Committee has discretion to allow the Executive Directors to receive the benefit of any dividends paid over the vesting period in the form of additional vesting shares.

	31/12/2022	31/12/2021	31/12/2020
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.19 years	1.20 years	1.19 years

The weighted average exercise price of awards that either vested or lapsed in 2022 was £nil (2021: £nil). The weighted average market price of awards which vested for current and former Executive Directors during 2022 was £30.69 (2021: £33.03). At the year end, Damian Wisniewski's 2019 PSP award remained exercisable and is comprised of 5,253 shares (see pages 219 and 228).

Outstanding PSP awards (audited)

The outstanding PSP awards held by Directors and employees are set out in the table below:

At Grant			During the year					Market price at date of vesting £	Value vested (inclusive of dividend equivalents) £'000	Earliest vesting date
Date of award	Market price at date of grant £	1 January 2022 (number)	Granted ³ (number)	Vested ^{1,2} (number)	Lapsed (number)	31 December 2022 (number)				
Executive Directors										
Paul Williams	12/03/2019	32.53	27,174	–	(5,253)	(21,921)	–	30.90	162	12/03/2022
	14/08/2019	29.42	6,713	–	(1,300)	(5,413)	–	27.14	35	14/08/2022
	13/03/2020	33.14	36,210	–	–	–	36,210			13/03/2023
	12/03/2021	33.16	36,911	–	–	–	36,911			12/03/2024
	09/03/2022	29.36	–	42,942	–	–	42,942			09/03/2025
			107,008	42,942	(6,553)	(27,334)	116,063			
Damian Wisniewski	12/03/2019	32.53	27,174	–	–	(21,921)	5,253	30.90	162	12/03/2022
	13/03/2020	33.14	28,968	–	–	–	28,968			13/03/2023
	12/03/2021	33.16	29,529	–	–	–	29,529			12/03/2024
	09/03/2022	29.36	–	34,352	–	–	34,352			09/03/2025
			85,671	34,352	–	(21,921)	98,102			
Nigel George	12/03/2019	32.53	27,174	–	(5,253)	(21,921)	–	30.90	162	12/03/2022
	13/03/2020	33.14	28,968	–	–	–	28,968			13/03/2023
	12/03/2021	33.16	29,529	–	–	–	29,529			12/03/2024
	09/03/2022	29.36	–	34,352	–	–	34,352			09/03/2025
			85,671	34,352	(5,253)	(21,921)	92,849			
Emily Prideaux	12/03/2019	32.53	7,377	–	(1,435)	(5,942)	–	30.90	44	12/03/2022
	13/03/2020	33.14	9,052	–	–	–	9,052			13/03/2023
	12/03/2021	33.16	24,728	–	–	–	24,728			12/03/2024
	09/03/2022	29.36	–	30,653	–	–	30,653			09/03/2025
			41,157	30,653	(1,435)	(5,942)	64,433			
Former Executive Directors										
David Silverman	12/03/2019	32.53	27,174	–	(5,253)	(21,921)	–	30.90	162	12/03/2022
	13/03/2020	33.14	28,968	–	–	–	28,968			13/03/2023
	12/03/2021	33.16	29,529	–	–	–	29,529			12/03/2024
			85,671	–	(5,253)	(21,921)	58,497			
Simon Silver	12/03/2019	32.53	35,720	–	(4,517)	(31,203)	–	30.90	140	12/03/2022
	13/03/2020	33.14	35,063	–	–	–	35,063			13/03/2023
			70,783	–	(4,517)	(31,203)	35,063			
Other employees										
Other employees	12/03/2019	32.53	33,030	–	(5,937)	(27,093)	–	30.90	183	12/03/2022
	13/03/2020	33.14	34,843	–	–	–	34,843			13/03/2023
	12/03/2021	33.16	31,654	–	–	–	31,654			12/03/2024
	09/03/2022	29.36	–	61,199	–	–	61,199			09/03/2025
			99,527	61,199	(5,937)	(27,093)	127,696			
Total			575,488	203,498	(28,948)	(157,335)	592,703		1,050	

1 The PSP awards granted on 12 March 2019 and 14 August 2019 vested on 14 March 2022 and 14 August 2022, respectively, at a vesting level of 18.1%. The value of the vesting awards was based on the share price on the vesting date and is inclusive of dividend equivalents in the form of additional vesting shares (see note 2 for further details). In accordance with the PSP rules, Damian Wisniewski has not yet exercised his vested awards (5,253 shares). The 5,253 shares are being held by the Company and will not accrue dividend equivalents. Damian Wisniewski has until the 10th anniversary of grant to exercise these shares.

2 In accordance with the PSP rules, the Remuneration Committee has discretion to allow PSP participants to receive dividend equivalents upon the vesting of their awards, which is equivalent to the value of any dividends paid on those shares between the grant date and the vesting date. For the March 2019 PSP grant, dividend equivalents were in the form of additional vesting shares and equated to dividends paid between March 2019 and March 2022. The dividend equivalent shares have been included in the table above, within the number of vesting awards, and equates to 91 shares for Emily Prideaux, 288 shares for Simon Silver and 335 shares each for the other Executive Directors. For the August 2019 PSP grant, dividend equivalents were in the form of additional vesting shares and equated to dividends paid between August 2019 and August 2022. The dividend equivalent shares have been included in the table above, within the number of vesting awards, and equates to 86 shares for Paul Williams.

3 The PSP awards granted on 9 March 2022 will vest on 9 March 2025. The performance targets attached to these awards are detailed on page 218.

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Sharesave Plan (audited)

Grant of Sharesave options

To encourage Group-wide share ownership, the Company has operated a HMRC tax efficient Sharesave Plan since the 2018 AGM. On 21 September 2022, the Company granted options under the Derwent London Sharesave Plan. The three-year contract for the Options started on 1 November 2022. These Options are exercisable at a price of £19.61 per share from 1 November 2025 and are not subject to any performance conditions.

Executive Directors	Monthly saving amount	Number of shares under option	Option price	Market price at grant	Value of award ¹
Paul Williams	£250	458	£19.61	£23.26	£1,672
Damian Wisniewski	£250	458	£19.61	£23.26	£1,672
Nigel George	£250	458	£19.61	£23.26	£1,672
Emily Prideaux	£250	458	£19.61	£23.26	£1,672

¹ The value of the award is based on the middle market share price on the grant date minus the option price.

Outstanding Sharesave options

The outstanding Sharesave options held by Directors and employees are set out in the table below:

	At Grant		During the year				Maturity date	Market price at date of exercise £	Value of award at exercise £'000	
	Date of award	Option price £	1 January 2022 (number)	Granted (number)	Exercised ¹ (number)	Lapsed (number)				31 December 2022 (number)
Executive Directors										
Paul Williams	30/04/2019	25.80	348	-	(348)	-	-	01/06/2022	29.32	1
	09/04/2020	27.53	326	-	-	-	326	01/06/2023		
	21/09/2022	19.61	-	458	-	-	458	01/11/2025		
			674	458	(348)	-	784			
Damian Wisniewski	30/04/2019	25.80	348	-	(348)	-	-	01/06/2022	29.32	1
	09/04/2020	27.53	163	-	-	-	163	01/06/2023		
	15/04/2021	25.93	173	-	-	-	173	01/06/2024		
	21/09/2022	19.61	-	458	-	-	458	01/11/2025		
			684	458	(348)	-	794			
Nigel George	30/04/2019	25.80	348	-	(348)	-	-	01/06/2022	29.32	1
	09/04/2020	27.53	326	-	-	-	326	01/06/2023		
	21/09/2022	19.61	-	458	-	-	458	01/11/2025		
			674	458	(348)	-	784			
Emily Prideaux	15/04/2021	25.93	347	-	-	-	347	01/06/2024		
	21/09/2022	19.61	-	458	-	-	458	01/11/2025		
			347	458	-	-	805			
Former Executive Director										
David Silverman	30/04/2019	25.80	348	-	-	(348)	-	01/06/2022		
	09/04/2020	27.53	326	-	-	(326)	-	01/06/2023		
			674	-	-	(674)	-			
Other employees										
	30/04/2019	25.80	16,990	-	(15,527)	(1,324)	139	01/06/2022		
	09/04/2020	27.53	20,285	-	-	(5,574)	14,711	01/06/2023		
	15/04/2021	25.93	13,290	-	-	(4,020)	9,270	01/06/2024		
	21/09/2022	19.61	-	33,133	-	(916)	32,217	01/11/2025		
			50,565	33,133	(15,527)	(11,834)	56,337			
Total			53,618	34,965	(16,571)	(12,508)	59,504			

¹ On 1 June 2022, the Options granted on 30 April 2019 became capable of exercise at a price of £25.80 per share. On the same date, and on various allotment dates during the six-month exercise period, the Company allotted 16,571 shares, in aggregate, to participants who chose to exercise their Option.

Deferred Bonus Plan (audited)

Executive Directors are required to defer any annual bonus earned above 100% of salary into shares for three years. Under the new Remuneration Policy, the Committee has strengthened the annual bonus deferral requirements (see page 191). Details of the deferred bonus shares held by Directors and employees are set out in the table below:

	At Grant			During the year				Market price at date of release £	Value at release £'000	Release dates
	Date of award	Market price at date of grant £	Original Grant (number)	1 January 2022 (number)	Deferred (number)	Released ^{1,2} (number)	31 December 2022 (number)			
Executive Directors										
Paul Williams	13/03/2020	33.03	7,474	3,737	–	(3,737)	–	30.90	115	15/03/2021 & 14/03/2022
			7,474	3,737	–	(3,737)	–			
Damian Wisniewski	13/03/2020	33.03	6,364	3,182	–	(3,182)	–	30.90	98	15/03/2021 & 14/03/2022
			6,364	3,182	–	(3,182)	–			
Nigel George	13/03/2020	33.03	6,364	3,182	–	(3,182)	–	30.90	98	15/03/2021 & 14/03/2022
			6,364	3,182	–	(3,182)	–			
Former Executive Directors										
John Burns	13/03/2020	33.03	3,572	1,786	–	(1,786)	–	30.90	55	15/03/2021 & 14/03/2022
			3,572	1,786	–	(1,786)	–			
Simon Silver	13/03/2020	33.03	7,996	3,998	–	(3,998)	–	30.90	124	15/03/2021 & 14/03/2022
			7,996	3,998	–	(3,998)	–			
David Silverman	13/03/2020	33.03	6,364	3,182	–	(3,182)	–	30.90	98	15/03/2021 & 14/03/2022
			6,364	3,182	–	(3,182)	–			
Other employees	13/03/2020	33.03	1,834	917	–	(917)	–	30.90	28	15/03/2021 & 14/03/2022
			1,834	917	–	(917)	–			
Total			39,968	19,984	–	(19,984)	–		616	

1 The 2019 annual bonus in excess of 100% of salary was deferred into shares on 13 March 2020 and was released in two tranches, 50% on 15 March 2021 and the remaining 50% on 14 March 2022. On 14 March 2022, the Directors chose to sell all, or a proportion, of their released shares (which included a number to discharge the relevant tax obligations), in all cases at an average price of £30.90 per share. Further information is in the notes to the Directors' interests in shares table on page 222.

2 In accordance with the Annual Bonus Plan rules, the Remuneration Committee has discretion to allow participants to receive dividend equivalents upon the release of their deferred bonus shares, which is equivalent to the value of any dividends paid on those shares between the deferral date and the release date. The dividend equivalents are in the form of additional shares. The dividend equivalent shares added to the released shares on 14 March 2022 are excluded from the above table. For the shares released on 14 March 2022, the additional dividend equivalent shares equated to 122 shares for John Burns, 273 shares for Simon Silver, 255 shares for Paul Williams and 217 shares each for the other Executive Directors.

Managing shareholder dilution

The table below sets out the available dilution capacity for the Company's employee share plans based on the limits set out in the rules of those plans that relate to issuing new shares.

	2022
Total issued share capital as at 31 December 2022	112.3m
Investment Association share limits (in any consecutive 10-year period):	
Current dilution for all share plans	2.3%
Headroom relative to 10% limit	7.7%
5% for executive plans – current dilution for discretionary (executive) plans	1.2%
Headroom relative to 5% limit	3.8%

REMUNERATION COMMITTEE REPORT continued

ANNUAL REPORT ON REMUNERATION continued

Directors' interests in shares (audited)

Details of the Directors' interests in shares are provided in the table below.

	Number at 31 December 2022					Number at 31 December 2021				
	Beneficially held	Deferred shares	Conditional shares ⁷	Share options ⁸	Total	Beneficially held	Deferred shares	Conditional shares	Share options	Total
Executive Directors										
Paul Williams ¹	95,497	–	116,063	784	212,344	86,383	3,737	107,008	674	197,802
Damian Wisniewski ²	69,095	–	98,102	794	167,991	65,661	3,182	85,671	684	155,198
Nigel George ³	100,046	–	92,849	784	193,679	90,948	3,182	85,671	674	180,475
Emily Prideaux ⁴	6,081	–	64,433	3,725	74,239	5,322	–	41,157	3,267	49,746
Total	270,719	–	371,447	6,087	648,253	312,510	13,283	405,178	3,053	736,944
Non-Executive Directors										
Mark Breuer	7,000	–	–	–	7,000	7,000	–	–	–	7,000
Richard Dakin	–	–	–	–	–	–	–	–	–	–
Claudia Arney	2,500	–	–	–	2,500	2,500	–	–	–	2,500
Cilla Snowball	–	–	–	–	–	–	–	–	–	–
Helen Gordon ⁵	961	–	–	–	961	938	–	–	–	938
Lucinda Bell	1,000	–	–	–	1,000	1,000	–	–	–	1,000
Sanjeev Sharma ⁶	1,261	–	–	–	1,261	–	–	–	–	–
Total	12,722	–	–	–	12,722	11,438	–	–	–	11,438

There have been no other changes to the above interests between 31 December 2022 and 27 February 2023.

- Paul Williams acquired 5,253 shares from the PSP (March) 2019 grant which vested on 14 March 2022. The vesting shares included dividend equivalents in the form of 335 additional shares. To satisfy the tax liability arising, Paul sold 2,474 shares immediately upon vesting at an average share price of £30.90 per share. On 14 March 2022, Paul Williams acquired 3,992 shares under the Company's deferred bonus scheme when they were released from the 2020 deferral. To satisfy the tax liability arising, Paul sold 1,881 shares immediately upon their release at an average share price of £30.90 per share. On 1 June 2022, Paul Williams acquired 348 shares at an Option price of £25.80 pursuant to the Derwent London Sharesave Plan (see page 220). Paul Williams acquired 1,300 shares from the PSP (August) 2019 grant which vested on 15 August 2022, the vesting shares included dividend equivalents in the form of 86 additional shares. On 21 September 2022, Paul Williams was granted 458 share options under the Derwent London Sharesave Plan. On 11 October 2022, Paul Williams purchased 2,576 shares at an average share price of £19.26.
- Damian Wisniewski became entitled to exercise 5,253 shares from the PSP 2019 grant which vested on 14 March 2022. The vesting shares included dividend equivalents in the form of 335 additional shares. In accordance with the PSP rules, Damian Wisniewski has not yet exercised his vested awards (5,253 shares). The 5,253 shares are being held by the Company and will not accrue dividend equivalents. Damian Wisniewski has until the 10th anniversary of grant to exercise these shares. On 14 March 2022, Damian Wisniewski acquired 3,399 shares under the Company's deferred bonus scheme when they were released from the 2020 deferral. To satisfy the tax liability arising, Damian sold 1,601 shares immediately upon their release at an average share price of £30.90 per share. On 1 June 2022, Damian Wisniewski acquired 348 shares at an Option price of £25.80 pursuant to the Derwent London Sharesave Plan (see page 220). On 21 September 2022, Damian Wisniewski was granted 458 share options under the Derwent London Sharesave Plan. On 11 October 2022, Damian Wisniewski purchased 1,288 shares at an average share price of £19.26.
- Nigel George acquired 5,253 shares from the PSP 2019 grant which vested on 14 March 2022. The vesting shares included dividend equivalents in the form of 335 additional shares. To satisfy the tax liability arising, Nigel sold 2,474 shares immediately upon vesting at an average share price of £30.90 per share. On 14 March 2022, Nigel George acquired 3,399 shares under the Company's deferred bonus scheme when they were released from the 2020 deferral. To satisfy the tax liability arising, Nigel sold 1,601 shares immediately upon their release at an average share price of £30.90 per share. On 1 June 2022, Nigel George acquired 348 shares at an Option price of £25.80 pursuant to the Derwent London Sharesave Plan (see page 220). On 21 September 2022, Nigel George was granted 458 share options under the Derwent London Sharesave Plan. On 11 October 2022, Nigel George purchased 2,576 shares at an average share price of £19.26.
- Emily Prideaux was appointed an Executive Director on 1 March 2021, Emily's awards includes those that were granted prior to her appointment. Emily Prideaux acquired 1,435 shares from the PSP 2019 grant which vested on 14 March 2022. The vesting shares included dividend equivalents in the form of 91 additional shares. To satisfy the tax liability arising, Emily sold 676 shares immediately upon vesting at an average share price of £30.90 per share. On 21 September 2022, Emily Prideaux was granted 458 share options under the Derwent London Sharesave Plan, further information on page 220.
- During 2022, Helen Gordon reinvested her dividend to purchase an additional 23 shares.
- On 11 August 2022, Sanjeev Sharma purchased 1,261 shares at an average share price of £26.98.
- Conditional shares are those which are subject to performance conditions. For further information on the Performance Share Plan see pages 217 to 219.
- Share options principally relate to the Sharesave Plan (see page 220) and are unvested. For Emily Prideaux only, she has outstanding Employee Share Option Plan (ESOP) awards which were granted in respect of her role prior to being appointed an Executive Director.

Directors' shareholding guideline

Executive Directors are subject to within-employment and post-employment shareholding guidelines (see page 196). The within-employment shareholding guideline for the year ended 31 December 2022 expects all Executive Directors to work towards holding shares in Derwent London plc equivalent to 200% of base salary.

As at 31 December 2022, all Executive Directors have exceeded the within-employment shareholding guideline, except Emily Prideaux who was appointed an Executive Director from 1 March 2021. Emily Prideaux is working towards achieving the within-employment shareholding guideline.

Executive Directors	Beneficially held shares	2022 salary ¹	Target	Achieved	Value of beneficially held shares ²
			(% of base salary)		
Paul Williams	95,497	£630,400	200%	417%	£2,627,122
Damian Wisniewski	69,095	£504,300	200%	377%	£1,900,803
Nigel George	100,046	£504,300	200%	546%	£2,752,265
Emily Prideaux	6,081	£450,000	200%	37%	£167,288

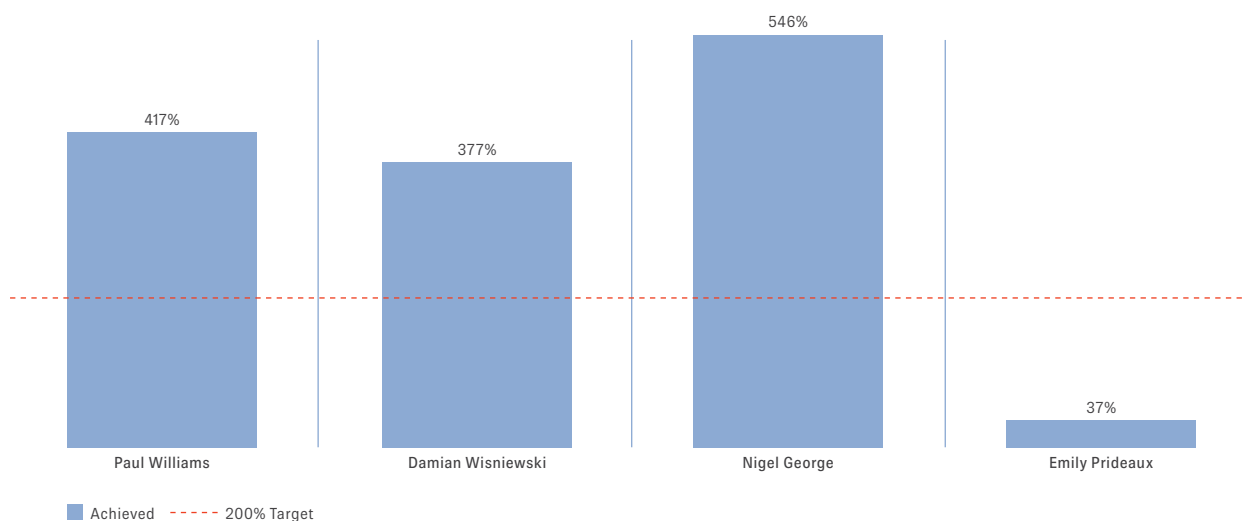
1 The base salaries shown in the table above are as at 31 December 2022. Further information on fixed pay during 2022 is provided on page 213.

2 The value of the Executive Directors' beneficially held shares has been calculated using the average closing share price during the year ended 31 December 2022 of £27.51.

All other employees granted PSP awards are expected to work towards holding shares in Derwent London plc equivalent to 50% of base salary. The share ownership guidelines for all PSP recipients (including Executive Directors) requires them to retain at least half of any deferred bonus shares or performance shares which vest (net of tax) until the guideline is met. Only wholly-owned shares will count towards the guideline. There is no shareholding guideline for Non-Executive Directors.

Within-employment shareholding guideline

The chart below highlights the value of each Executive Director's beneficially held shares at 31 December 2022, as a percentage of base salary. Due to the relatively large shareholdings of our Executive Directors, a small change in our share price would have a material impact on their wealth. For example, a 5% drop in our share price would result in a loss of value for our Chief Executive, Paul Williams, equivalent to approximately 21% of his base salary.



DIRECTORS' REPORT



DAVID LAWLER
Company Secretary

The Directors' report for the financial year ended 31 December 2022 is set out on pages 224 to 228. Additional information, which is incorporated into this Directors' report by reference, including information required in accordance with the Companies Act 2006 and Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules, can be located by page reference in the body of this Directors' report and on the following pages:

Future business developments	Pages 3 to 125
Stakeholder engagement	Page 130
Diversity and inclusion	Page 186
Charitable donations	Page 57
Going concern & viability	Pages 108 to 111
The section 172(1) statement	Pages 131 to 133
Monitoring purpose, values and culture	Page 140
Review of the 2022 Report & Accounts	Page 158
Internal financial control	Pages 160 to 161
Risk management and internal controls	Page 171
Total remuneration in 2022	Page 213
Long-term incentive schemes	Pages 190 to 223
Interest capitalised	Page 255
Financial instruments	Pages 272 to 281
Financial risk management	Page 280
Credit, market and liquidity risks	Pages 280 to 281
Related party disclosures	Pages 290 to 291

The Directors present their Report & Accounts and audited financial statements for the year ended 31 December 2022.

This Report & Accounts contains certain forward-looking statements. By their nature, any statements about the future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance or outcomes may differ materially from any results, performance or outcomes expressed or implied by such forward-looking statements. Each forward-looking statement speaks only as of the date of that particular statement.

No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy. Nothing in this report and accounts should be construed as a profit forecast.

Both the Strategic report and the Directors' report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Corporate governance arrangements

During the year ended 31 December 2022, we have applied the principles and complied with the provisions of good governance contained in the UK Corporate Governance Code 2018 (the Code). Our Compliance Statement for 2022 is on page 128. Further details on how we have applied the Code can be found in the Governance section on pages 127 to 229.

The Code can be found in the Corporate Governance section of the Financial Reporting Council's website: www.frc.org.uk

Amendment of Articles of Association

Unless expressly specified to the contrary in the Company's Articles of Association (the Articles), the Articles may be amended by a special resolution of the Company's shareholders.

Company status and branches

Derwent London plc is a Real Estate Investment Trust (REIT) and the holding company of the Derwent London group of companies which includes no branches. It is a public listed company on the London Stock Exchange main market with a premium listing, and is registered and domiciled in England and Wales (company number 01819699).

Key stakeholders

The long-term success of the Group is dependent on its relationships with its key stakeholders. On page 130 we outline the ways in which we have engaged with key stakeholders to understand the value created and value received.

Substantial shareholders

The table below shows the holdings in the Company's issued share capital which had been notified to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. The information below was correct at the date of notification. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

	31 December 2022			27 February 2023		
	Direct/ indirect	Number of shares (m)	%	Direct/ indirect	Number of shares (m)	%
T. Rowe Price Associates, Inc	Indirect	12.3	10.9	Indirect	10.9	9.8
Norges Bank	Direct	10.1	9.0	Direct	10.1	9.0
BlackRock Investment Management (UK) Ltd	Indirect	6.0	5.4	Indirect	6.0	5.4
Resolution Capital Limited	Direct	5.5	4.9	Direct	5.5	4.9
Ameriprise Financial Inc (Columbia Threadneedle)	Indirect	4.9	4.8	Indirect	4.9	4.8
Lady Jane Rayne	Direct	4.1	3.6	Direct	4.1	3.6
Canada Pension Plan Investment Board	Direct	3.5	3.1	Direct	3.5	3.1
APG Asset Management N.V.	Direct	3.4	3.0	Direct	4.5	4.0

Employees

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. Dame Cilla Snowball is the designated Director responsible for gathering the views of the workforce. Further information on the Board's methods for engaging with the workforce are on pages 132 and 144.

Greenhouse gas emissions

In line with our commitment to transparent and best practice reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures on page 69 of the Responsibility section, which includes our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013. For further analysis and detail on our GHG emissions, please see our latest Responsibility Report, which can be found at:

www.derwentlondon.com/responsibility

Directors

The Directors of the Company are set out on pages 134 to 135, all of which were in office during the year under review except for David Silverman who stepped down from the Board on 14 April 2022.

The Board is required to consist of no fewer than two Directors and not more than 15. Shareholders may vary the minimum and/or maximum number of Directors by passing an ordinary resolution. Copies of the Executive Directors' service contracts are available to shareholders for inspection at the Company's registered office and at the Annual General Meeting (AGM). Details of the Directors' remuneration and service contracts and their interests in the shares of the Company are set out on pages 202 and 222.

Powers of the Directors

Subject to the Company's Articles of Association, the Companies Act 2006 and any directions given by special resolution, the business of the Company is managed by the Board, who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertakings, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Directors' training and development

Details of the training that has been provided to the Executive and Non-Executive Directors during the year can be found on page 148.

DIRECTORS' REPORT continued

Directors' indemnity

The Company maintains appropriate Directors' and Officers' liability insurance cover in respect of any potential legal action brought against its Directors. The Company has also indemnified each Director to the extent permitted by law against any liability incurred in relation to acts or omissions arising in the ordinary course of their duties. The indemnity arrangements were in force throughout the year (and at the date of approval of the financial statements) and are qualifying indemnity provisions under the Companies Act 2006. Our indemnity arrangements were subject to a best practice review with our lawyers during 2021.

Appointment and replacement of Directors

Directors may be appointed by ordinary resolution of the shareholders, or by the Board. Appointment of a Director from outside the Group is on the recommendation of the Nominations Committee, whilst internal promotion is a matter decided by the Board unless it is considered appropriate for a recommendation to be requested from the Nominations Committee.

At every AGM of the Company, any of the Directors who have been appointed by the Board since the last AGM shall seek election by the members.

Notwithstanding provisions in the Company's Articles of Association, the Board has agreed, in accordance with the Code and in line with previous years, that all of the Directors wishing to continue will retire and, being eligible, offer themselves for re-election by the shareholders at the 2023 AGM.

All Directors who held office during the financial year under review will be putting themselves forward for election at the AGM on 12 May 2023, except David Silverman who stepped down as a Director on 14 April 2022 and Richard Dakin who will retire from the Board on 28 February 2023.

Significant agreements

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, except that, under the rules of the Group's share-based remuneration schemes some awards may vest following a change of control.

Some of the Group's banking and financial arrangements are terminable upon a change of control of the Company.

As a REIT, a tax charge may be levied on the Company if it makes a distribution to another company which is beneficially entitled to 10% or more of the shares or dividends in the Company or controls 10% or more of the voting rights in the Company (a substantial shareholder), unless the Company has taken reasonable steps to avoid such a distribution being made.

The Company's Articles of Association give the Directors power to take such steps, including the power to:

- identify a substantial shareholder;
- withhold the payment of dividends to a substantial shareholder; and
- require the disposal of shares forming part of a substantial shareholding.

There is no person with whom the Group has a contractual or other arrangement that is essential to the business of the Company.

Annual General Meeting (AGM)

At the 2022 AGM, we were delighted to receive in excess of 93% votes in favour of all resolutions. In total, 87.8% of our shareholders (voting capital) voted.

The 39th AGM of Derwent London plc will be held in DL/78 at 78 Charlotte Street, London W1T 4QS on 12 May 2023 at 10.30am. The Notice of Meeting together with explanatory notes is contained in the circular to shareholders that accompanies the Report & Accounts.

In the event we receive 20% or more votes against a recommended resolution at a general meeting, we would announce the actions we intend to take to engage with our shareholders to understand the result in accordance with the Code. We would follow this announcement with a further update within six months of the meeting, with an overview of our shareholders' views on the resolutions and the remedial actions we have taken.

To date, the Board has not been required to follow these procedures due to the high level of support received from shareholders.

Voting

Shareholders will be entitled to vote at a general meeting whether on a show of hands or a poll, as provided in the Companies Act 2006. Where a proxy is given discretion as to how to vote on a show of hands this will be treated as an instruction by the relevant shareholder to vote in the way in which the proxy decides to exercise that discretion. This is subject to any special rights or restrictions as to voting which are given to any shares or upon which any shares may be held at the relevant time and to the Articles of Association.

If more than one joint holder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed first on the register for the share.

Restrictions on voting

Unless the Directors decide otherwise, a shareholder cannot attend or vote shares at any general meeting of the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if they have not paid all amounts relating to those shares which are due at the time of the meeting, or if they have been served with a restriction notice (as defined in the Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

Capital structure

As at 28 February 2023, the Company's issued share capital comprised a single class of 5p ordinary shares (ISIN: GB0002652740) and equalled an amount of £5,614,533.95 divided into 112,290,679 ordinary shares.

The market price of the 5p ordinary shares at 31 December 2022 was £23.68 (2021: £34.15). During the year, they traded in a range between £17.83 and £35.80 (2021: £30.16 and £38.50). Details of the ordinary share capital and shares issued during the year can be found in note 29 to the financial statements.

Rights and restrictions attaching to shares

Subject to the Articles of Association, the Companies Act 2006 and other shareholders' rights, shares in the Company may be issued with such rights and restrictions as the shareholders may by ordinary resolution decide, or if there is no such resolution, as the Board may decide provided it does not conflict with any resolution passed by the shareholders.

These rights and restrictions will apply to the relevant shares as if they were set out in the Articles of Association. Subject to the Articles of Association, the Companies Act 2006 and other shareholders' rights, unissued shares are at the disposal of the Board.

Variation of rights

The rights attached to any class of shares can be amended if approved, either by 75% of shareholders holding the issued shares in that class by amount, or by special resolution passed at a separate meeting of the holders of the relevant class of shares.

Every member and every duly appointed proxy present at a general meeting or class meeting has, upon a show of hands, one vote and every member present in person or by proxy has, upon a poll, one vote for every share held by him or her. No person holds securities in the Company carrying special rights with regard to control of the Company.

Restrictions on transfer of securities in the Company

There are no specific restrictions on the transfer of securities in the Company, which is governed by its Articles of Association and prevailing legislation. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities.

Powers in relation to the Company issuing or buying back its own shares

At the 2022 AGM, shareholders authorised the Company to allot relevant securities:

- (i) up to a nominal amount of £1,869,955; and
- (ii) up to a nominal amount of £3,740,471, after deducting from such limit any relevant securities allotted under (i), in connection with an offer by way of a rights issue.

This authority is renewable annually. An ordinary resolution will be proposed at the 2023 AGM to grant a similar authority to allot:

- (i) up to a nominal amount of £1,871,324 (being one-third of the issued share capital of the Company); and
- (ii) up to a nominal amount of £3,743,210, after deducting from such limit any relevant securities allotted under (i), in connection with an offer by way of a rights issue (being two-thirds of the issued share capital).

At the 2023 AGM, similar to previous years, authority will be sought via a special resolution to enable the Directors to allot securities and/or sell any treasury shares for cash on a non-pre-emptive basis up to a nominal amount of £280,727 (representing 5% of the issued share capital). In addition, authority will be sought via a special resolution to enable the Directors to allot securities and/or sell treasury shares for cash on a non-pre-emptive basis for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) an acquisition or other capital investment. The allotment of equity securities or sale of treasury shares under such authority will also be limited to a nominal amount of £280,727 (representing a further 5% of the issued share capital).

A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market.

The authority will be limited to a maximum of 11,229,068 ordinary shares and the resolution sets the minimum and maximum prices which may be paid. The Directors will only purchase the Company's shares in the market if they believe it is in the best interests of shareholders generally.

DIRECTORS' REPORT continued

Derwent London shares held by the Group

As at 31 December 2022, the Group holds 10,666 Derwent London shares in order to deliver vesting shares under the Performance Share Plan (PSP) to participants, allot dividend equivalents as additional vesting shares and deliver deferred bonus shares when the deferral periods expire. Movements on the holding of these shares are detailed below.

The shares held as at 31 December 2022 include Damian Wisniewski's vested but unexercised PSP 2019 award (5,253 shares). The outstanding balance (5,413 shares) will be utilised for dividend equivalents in respect of the PSP (see page 219).

	1 January 2022	During the year			31 December 2022
		Acquired	Allotted	Disposal	
Deferred bonus	19,984	1,362	–	(21,346)	–
Performance Share Plan	–	–	39,614	(28,948)	10,666
Total	19,984	1,362	39,614	(50,294)	10,666
Price (£)		£30.29			
Percentage of issued share capital					0%

Results and dividends

The financial statements set out the results of the Group for the financial year ended 31 December 2022 and are shown on pages 242 to 305. The Directors recommend a final dividend of 54.50p per ordinary share for the year ended 31 December 2022. When taken together with the interim dividend of 24.0p per ordinary share paid in October 2022, this results in a total dividend for the year of 78.50p (2021: 76.50p) per ordinary share. Subject to approval by shareholders of the recommended final dividend, the dividend to shareholders for 2022 will total £61.2m. If approved, the Company will pay the final dividend on 2 June 2023 to shareholders on the register of members at 28 April 2023.

PID and non-PID dividends

As a REIT, Derwent London must distribute at least 90% of the Group's income profits from its tax-exempt property rental business by way of a dividend, which is known as a Property Income Distribution (PID). These distributions can be subject to withholding tax at 20%. Dividends from profits of the Group's taxable residual business are non-PID and will be taxed as an ordinary dividend.

Fixed assets

The Group's portfolio was professionally revalued at 31 December 2022, resulting in a deficit of £401.8m, before accounting adjustments of £19.8m and share of joint venture of £9.2m. The portfolio is included in the Group balance sheet at a carrying value of £5,145.6m. Further details are given in note 16 of the financial statements.

Post-balance sheet events

Details of post-balance sheet events are given in note 37 of the financial statements.

Political donations

There were no political donations during 2022 (2021: nil).

Auditors

PricewaterhouseCoopers LLP, which was appointed in 2014 following a competitive tender process, has expressed its willingness to continue in office as the Group's Auditor and, accordingly, resolutions to reappoint it and to authorise the Audit Committee, for and on behalf of the Directors, to determine its remuneration will be proposed at the AGM. These are resolutions 15 and 16 set out in the Notice of Meeting.

A competitive tender process for the role of Group Auditor will be conducted during 2023, for the 2024 year end audit, in accordance with the current regulation that requires a tender every 10 years, further information is on pages 168 to 169.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware and that each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and ensure that the Auditor is aware of such information.

The Strategic report and Directors' report have been approved by the Board of Directors and signed by order of the Board by:

DAVID LAWLER
Company Secretary

27 February 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under Company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 134 to 135 confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the loss of the Group; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

PAUL WILLIAMS

Chief Executive

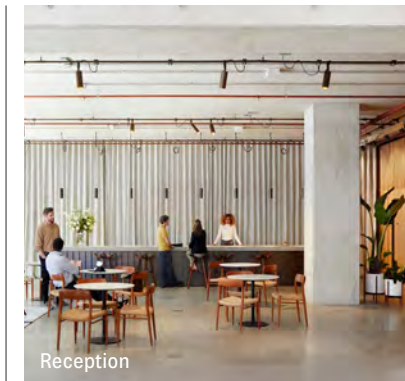
27 February 2023

DAMIAN WISNIEWSKI

Chief Financial Officer



The Featherstone Building EC1



“The Featherstone Building fuses site-specific contextual references with modern engineering and cutting-edge construction techniques, including Intelligent Building infrastructure, to deliver a high quality and forward-looking, net zero carbon building in this important London location.”

JOE MORRIS

FOUNDING DIRECTOR, MORRIS+COMPANY

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INDEPENDENT AUDITORS' REPORT

to the members of Derwent London plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Derwent London plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts 2022 (the "Annual Report"), which comprise: Balance sheets as at 31 December 2022; the Group income statement and Group statement of comprehensive income, the Cash flow statements, and the Statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.
- The Group's properties are spread across 67 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. All work was carried out by the Group audit team with additional procedures performed on the consolidation to ensure sufficient coverage for our opinion on the Group financial statements as a whole.

Key audit matters

- Valuation of investment properties (Group)
- Revenue recognition (Group)
- Accounting for the expected credit loss provision (Group)
- Compliance with REIT guidelines (Group)
- Valuation of investments in and loans to subsidiaries (Company)

Materiality

- Overall Group materiality: £55.0 million (2021: £58.9 million) based on 1% of Total assets.
- Specific materiality: £6.0million (2021: £5.8 million) for certain income statement line items which is calculated based on 5% of Profit Before Tax after removing revaluation of investment properties (whether held directly or through joint ventures), profit on disposal and fair value movements on derivatives.
- Overall Company materiality: £41.1 million (2021: £37.4 million) based on 1% of Total assets.
- Performance materiality: £41.2 million (2021: £44.1 million) (Group) and £30.8 million (2021: £28.0 million) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Valuation of borrowings and derivatives (Group), which was a key audit matter last year, is no longer included because of no significant changes in financing activity during the year that warranted additional audit focus in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties (Group)</p> <p>Refer to the Audit Committee report (Significant financial judgements, key assumptions and estimates), note 3 (Significant judgements, key assumptions and estimates) and note 16 (Property portfolio) to the financial statements.</p> <p>The Group has investment properties totalling £5,002.0 million (2021: £5,361.2 million – restated).</p> <p>The Group's property portfolio is held directly or through joint ventures and principally consists of offices and commercial space within central London. The remainder of the portfolio represents a retail park, cottages and strategic land in Scotland.</p> <p>Valuations are carried out by third party valuers (the 'Valuers') in accordance with the Royal Institute of Chartered Surveyors Valuation – Professional Standards, International Accounting Standard 40 (Investment Property) and International Financial Reporting Standard 13 (Fair Value Measurement).</p> <p>There are significant judgements and estimates to be made in relation to the valuation of the Group's investment properties. Where available, the valuations take into account evidence of market transactions for properties and locations comparable to those of the Group.</p>	<p>The Valuers used by the Group are Knight Frank for the central London portfolio and Savills for the majority of the remaining investment property portfolio in Scotland. They are well-known firms, with sufficient experience of the Group's market. We assessed the competence and capabilities of the Valuers and verified their qualifications by discussing the scope of their work and reviewing the terms of their engagements for unusual terms or fee arrangements. Based on this work, we are satisfied that the Valuers remain objective and competent and that the scope of their work was appropriate.</p> <p>We tested the data inputs underpinning the investment property valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing them to the underlying property records held by the Group to assess the reliability, completeness and accuracy of the underlying data used by the Valuers. The underlying property records were assessed for reliability by obtaining signed and approved lease contracts or sale/purchase contracts and by inspecting approved third party invoices and tracing back to bank statements. For the properties currently under development, we agreed the costs to date included within development appraisals to quantity surveyor reports. We met with the Valuers independently of management and obtained the valuation reports to discuss and challenge the valuation methodology and assumptions. We also challenged the Valuers as to the extent to which recent market transactions and expected rental values which they made use of in deriving their valuations took into account the impact of climate change. We agreed the total forecasted cost of upgrading buildings to EPC (Energy Performance Certificate) B to a third party report commissioned by the Group and challenged the Valuers on demonstrating their consideration of these EPC related costs within the underlying property valuations.</p>

INDEPENDENT AUDITORS' REPORT continued

to the members of Derwent London plc

Key audit matter	How our audit addressed the key audit matter
<p>The central London investment property portfolio mainly features office accommodation and includes:</p> <p>Standing investments: These are existing properties that are currently let. They are valued using the income capitalisation method.</p> <p>Development projects: These are properties currently under development or identified for future development. They have a different risk and investment profile to the standing investments. These are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion and a risk premium).</p> <p>The most significant estimates affecting the valuation included yields and estimated rental value ("ERV") growth (as described in note 16 of the financial statements). For development projects, other assumptions including costs to completion and risk premium assumptions are also factored into the valuation.</p> <p>The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.</p>	<p>Given the inherent subjectivity involved in the valuation of the property portfolio, and therefore the need for deep market knowledge when determining the most appropriate assumptions and the technicalities of valuation methodology, we engaged our internal valuation experts (qualified chartered surveyors) to assist us in our audit of this area. We involved our internal valuation experts to compare the valuations of each property with our independently formed market expectations and challenged any differences outside of our expected range. In doing this we used evidence of comparable market transactions and focused in particular on properties where the growth in capital values was higher or lower than our expectations based on independent publicly available market indices.</p> <p>We identified the following categories of assets for further testing: standing investments where the valuation fell outside the expected range; ongoing and planned development projects; high value assets greater than our overall materiality; and acquisitions.</p> <p>In relation to these assets, we found that yield rates and ERVs were predominantly consistent with comparable information for central London offices and assumptions appropriately reflected comparable market information. Where assumptions did not fall within our expected range, we assessed whether additional evidence presented in arriving at the final valuations was appropriate. Variances were largely due to property specific factors such as movements in ERV following leasing activity or yield to reflect market transactions in close proximity. We verified the movements to supporting documentation including evidence of comparable market transactions where appropriate.</p> <p>We challenged the Directors on the movements in the valuations and found that they were able to provide explanations and refer to appropriate supporting evidence.</p> <p>We considered reasons why the market capitalisation was lower than the net asset value of the Group.</p> <p>We have no matters to report in respect of this work.</p>
<p>Revenue recognition (Group)</p> <p>Refer to the Strategic report – "Our principal risks" and note 5 (Property and other income) to the financial statements.</p> <p>Revenue for the Group consists primarily of rental income, and service charge income. Rental income is based on tenancy agreements where there is a standard process in place for recording revenue. Service charge income relates to expenditure that is directly recoverable from tenants.</p> <p>There are certain transactions within revenue that warrant additional audit focus because of an increased inherent risk of error due to their non-standard nature.</p> <p>These include spreading of tenant incentives, guaranteed rent increases and rental concessions given to tenants.</p> <p>These balances require adjustments made to rental income to ensure revenue is recorded on a straight-line basis over the course of the lease.</p>	<p>We performed sample testing over the lease data recorded in the two tenancy management systems to supporting lease agreements, to gain comfort over the accuracy of the data.</p> <p>We also performed a recalculation of rental income on a sample basis based on the information in the tenancy management system (that generates rental demands) to gain comfort over the completeness of revenue recognised. We tested on a sample basis the calculation of rental demands.</p> <p>For rental income, we tested a sample of balances to invoices and traced receipts to bank statements and ensured that rental income had been appropriately recorded.</p> <p>We tested a sample of lease incentive debtor balances back to supporting documentation agreeing the inputs to the lease incentive calculations and assessed the appropriateness of the calculations in line with International Financial Reporting Standard 16 (Leases) ("IFRS 16").</p> <p>We recalculated a sample of lease incentive adjustments posted to revenue in the year to ensure that lease incentive debtors are being recognised properly as accrued income and subsequently amortised in line with IFRS 16.</p> <p>We have no matters to report in respect of this work.</p>

Key audit matter**How our audit addressed the key audit matter****Accounting for the expected credit loss provision (Group)**

Refer to the Audit Committee report (Significant financial judgements, key assumptions and estimates), note 3 (Significant judgements, key assumptions and estimates) and note 21 (Trade and other receivables) to the financial statements.

IFRS 9 requires that credit losses on financial assets are measured and recognised using the “expected credit loss” (ECL) approach. The Group has applied the simplified approach to trade receivables and lease incentive debtors.

The ongoing economic uncertainty as a result of factors such as the Russo-Ukrainian war, rising interest and inflation rates have caused unforeseen challenges to the UK and the wider global economy, impacting the overall risk profile of tenants. Whilst during the period rent collection rates have remained high there remains a risk of tenants defaulting or tenant failure, particularly in respect to the retail or hospitality sectors.

At the year end an ECL provision of £5.0 million (2021: £8.3 million – restated) has been recorded. In arriving at the Group’s estimate, management has considered the probability of default for tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or Company voluntary arrangements (CVA) and the top 50 tenants by size. Management has also considered the remaining balances classified by sector risk.

Due to the subjectivity of the assumptions used therein, we have considered this an area of audit focus.

We verified the mathematical accuracy of the model and provision calculation of the ECL.

We evaluated the basis for determining the categorisation of tenants by risk and the associated probability of default percentages applied to each category.

We reviewed the risk committee meeting minutes and compared these against the ECL model to ensure that the tenant specific discussions were reflected in the provision calculation.

We obtained an ageing report of trade receivables and tested the accuracy by checking the ageing of selected invoices on a sample basis.

We performed independent research over a sample of tenants in order to assess any contradictory evidence and how this had been incorporated into the forward-looking probability of default assigned to the tenant.

We reviewed the disclosures made in relation to the ECL provision and the sensitivity of the provision to the underlying probability of default applied.

We have no matters to report in respect of this work.

Compliance with REIT guidelines (Group)

Refer to the Audit Committee report (Significant financial judgements, key assumptions and estimates) and note 3 (Significant judgements, key assumptions and estimates).

The UK REIT regime grants companies tax exempt status provided they meet the rules within the regime. The rules are complex and the tax exempt status has a significant impact on the financial statements. The complexity of the rules creates a risk of an inadvertent breach and the Group’s profit becoming subject to tax.

The obligations of the REIT regime include requirements to comply with balance of business, dividend and income cover tests. The Group’s status as a REIT underpins its business model and shareholder returns. For this reason, it warrants special audit focus.

We confirmed our understanding of management’s approach to ensuring compliance with the REIT regime rules.

We obtained management’s calculations and supporting documentation, checking their accuracy by verifying the inputs and calculations. We involved our internal taxation experts to verify the accuracy of the application of the rules and to re-perform the REIT compliance tests.

We found that the assessment prepared was free from material error and consistent with the UK REIT guidelines.

INDEPENDENT AUDITORS' REPORT continued

to the members of Derwent London plc

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investments in and loans to subsidiaries (Company)</p> <p>Refer to notes 19 (Investments) and 21 (Trade and other receivables) to the financial statements.</p> <p>The Company has investments in subsidiaries of £2,224.7 million (2021: £1,749.8 million) and loans to subsidiaries of £1,759.2 million (2021: £1,860.7 million) as at 31 December 2022. This is following the recognition of a £130.1million (2021: £19.9 million) provision for impairment on investments in subsidiaries and an expected credit loss impairment of £nil (2021: £nil) recognised on loans to subsidiaries in the year.</p> <p>The Company's accounting policy for investments and loans is to hold them at cost less any impairment. Impairment of the loans is calculated in accordance with International Financial Reporting Standard 9 (Financial Instruments). Investments in subsidiaries are assessed for impairment in line with International Accounting Standard 36 (Impairment of Assets).</p> <p>Given the inherent judgement and complexity in assessing both the carrying value of a subsidiary Company and the expected credit loss of intercompany receivables, this was identified as a key audit matter.</p>	<p>We obtained the directors' impairment assessment for the recoverability of investments in and loans to subsidiaries as at 31 December 2022.</p> <p>We assessed the accounting policy for investments and loans to subsidiaries to ensure they were compliant with UK-adopted International Accounting Standards. We verified that the methodology used by the directors in arriving at the carrying value of each subsidiary, and the expected credit loss 'simplified approach' provision for intercompany receivables, was compliant with UK-adopted International Accounting Standards.</p> <p>We identified the key judgement within the requirement for impairment of both the investments and loans to subsidiaries to be the underlying valuation of investment property held by the subsidiaries. For details of our procedures over investment property valuations please refer to the Group key audit matter above.</p> <p>We have no matters to report in respect of this work.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's properties are spread across 67 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. All work was carried out by the Group audit team with additional procedures performed on the consolidation to ensure sufficient coverage and appropriate audit evidence for our opinion on the Group financial statements as a whole.

The impact of climate risk on our audit

In planning our audit, we made enquiries with management to understand the extent of the potential impact of climate change risk on the financial statements. Our evaluation of this conclusion included challenging key judgements and estimates in areas where we considered that there was greatest potential for climate change impact. We particularly considered how climate change risks would impact the assumptions made in the valuation of investment properties as explained in our key audit matter above. We also considered the consistency of the disclosures in relation to climate change made within the Annual Report, the financial statements and the knowledge obtained from our audit. We assessed the consideration of the cost of delivering the Group's climate change and sustainability strategy within the going concern and viability forecasts.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£55.0 million (2021: £58.9 million).	£41.1 million (2021: £37.4 million).
How we determined it	1% of Total assets	1% of Total assets
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, we set an overall Group materiality level based on total assets.	The key driver of the business and determinant of the Company's value is investments in and loans to subsidiaries. Due to this, the key area of focus in the audit is the valuation of investments in and loans to subsidiaries. On this basis, we set an overall Company materiality level based on total assets.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £4.0 million to £40.0 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £41.2 million (2021: £44.1 million) for the Group financial statements and £30.8 million (2021: £28.0 million) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

In addition, we set a specific materiality level of £6.0 million (2021: £5.8 million) for certain income statement line items which is calculated based on 5% of Profit Before Tax after removing revaluation of investment properties (whether held directly or through joint ventures), profit on disposal and fair value movements on derivatives.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.7 million (for items audited using overall materiality) and £0.6 million (for items audited using specific materiality) (Group audit) (2021: £2.9 million and £0.5 million) and £2.0 million (Company audit) (2021: £1.7 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Agreed the underlying cash flow projections to Board approved forecast and assess how this forecast is compiled;
- Considered management's forecasting accuracy by comparing how the forecast made at the half year compare to the actuals performance in the second half of the year;
- Tested the integrity of the underlying formulas and calculations within the going concern and cash flow models;
- Understood and assessed the appropriateness of the key assumptions under both in the base case and in the severe but plausible downside scenarios, including assessing whether we considered the downside sensitivities to be appropriately severe;
- Performed sample testing over the data and information of the properties used in the forecast made by the MRI forecasting system to the supporting documents to gain comfort over the accuracy of the data and information in the MRI forecasting system;
- Assessed the consideration of the cost of delivering the Group's climate change and sustainability strategy within the underlying going concern and viability forecasts;
- Evaluated whether the directors' conclusion, that sufficient liquidity and covenant headroom existed to continue trading operationally throughout the going concern period under the base and severe but plausible scenarios, is appropriate; and
- Reviewed the disclosures provided relating to the going concern basis of preparation and found that these provided an explanation of the directors' assessment that was consistent with the evidence we obtained.

INDEPENDENT AUDITORS' REPORT continued

to the members of Derwent London plc

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT continued

to the members of Derwent London plc

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the Real Estate Investment Trust (REIT) status section 1158 of the Corporation Tax Act 2010 and non-compliance with the UK regulatory principles, such as those governed by the Listings Rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of investment properties. Audit procedures performed by the engagement team included:

- Discussions with management, including the Company Secretary, as well as those charged with governance, over their consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Understanding and evaluating management's controls designed to prevent and detect irregularities;
- Reviewing the reports made by internal audit;
- Assessment of matters reported through the Group's whistleblowing helpline and the results of management's investigation of such matters where relevant;
- Review of tax compliance with the involvement of our tax experts in the audit;
- Procedures relating to the valuation of investment properties described in the related key audit matter above;
- Reviewing relevant meeting minutes, including those of the Board of Directors, Risk Committee and the Audit Committee; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Remuneration Committee Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 14 May 2014 to audit the financial statements for the year ended 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement is nine years, covering the years ended 31 December 2014 to 31 December 2022.

OTHER MATTER

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Sandra Dowling (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

27 February 2023

GROUP INCOME STATEMENT

for the year ended 31 December 2022

	Note	2022 £m	2021 Restated ¹ £m
Gross property and other income	5	248.8	241.3
Net property and other income ²	5	194.6	187.2
Administrative expenses		(36.4)	(37.1)
Revaluation (deficit)/surplus	16	(422.1)	131.1
Profit on disposal	6	25.6	10.4
(Loss)/profit from operations		(238.3)	291.6
Finance income	7	0.3	–
Finance costs	7	(39.7)	(28.1)
Movement in fair value of derivative financial instruments		5.8	4.8
Financial derivative termination costs	8	(0.3)	(1.9)
Share of results of joint ventures	9	(7.3)	(13.9)
(Loss)/profit before tax	10	(279.5)	252.5
Tax (charge)/credit	15	(1.0)	1.3
(Loss)/profit for the year		(280.5)	253.8
Attributable to:			
Equity shareholders	31	(280.5)	252.3
Non-controlling interest		–	1.5
		(280.5)	253.8
Basic (loss)/earnings per share	40	(249.84p)	224.99p
Diluted (loss)/earnings per share	40	(249.84p)	224.44p

1 Prior year figures have been restated for a change in accounting policy in relation to forgiveness of lease payments. See note 2 for additional information.

2 Net property and other income in 2022 includes a credit of £1.0m for the movement in impairment of receivables (2021 restated: charge of £2.2m). See note 3 for additional information.

The notes on pages 247 to 304 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
(Loss)/profit for the year		(280.5)	253.8
Actuarial (losses)/gains on defined benefit pension scheme	14	(2.0)	2.7
Deferred tax charge on pension	28	–	(0.4)
Revaluation surplus of owner-occupied property	16	0.7	3.7
Deferred tax charge on revaluation	28	(0.2)	(1.3)
Other comprehensive (expense)/income that will not be reclassified to profit or loss		(1.5)	4.7
Total comprehensive (expense)/income relating to the year		(282.0)	258.5
Attributable to:			
Equity shareholders		(282.0)	257.0
Non-controlling interest		–	1.5
		(282.0)	258.5

The notes on pages 247 to 304 form part of these financial statements.

BALANCE SHEETS

as at 31 December 2022 (Registered No. 1819699)

	Note	Group		Company	
		2022 £m	2021 Restated ¹ £m	2022 £m	2021 Restated ¹ £m
Non-current assets					
Investment property	16	5,002.0	5,361.2	–	–
Property, plant and equipment	17	54.3	54.0	21.0	22.6
Investments	19	43.9	51.1	2,224.7	1,749.8
Derivative financial instruments	25	5.0	–	5.0	–
Deferred tax	28	–	0.3	3.0	3.6
Pension scheme surplus	14	1.2	1.8	1.2	1.8
Other receivables	20	188.1	159.3	–	–
		5,294.5	5,627.7	2,254.9	1,777.8
Current assets					
Trading property	16	39.4	32.2	–	–
Trading stock	18	2.3	0.4	–	–
Trade and other receivables	21	42.4	41.0	1,788.0	1,898.9
Cash and cash equivalents	33	76.6	105.5	67.3	90.6
		160.7	179.1	1,855.3	1,989.5
Non-current assets held for sale	22	54.2	102.8	–	–
Total assets		5,509.4	5,909.6	4,110.2	3,767.3
Current liabilities					
Borrowings	25	19.7	12.3	–	–
Leasehold liabilities	25	0.5	51.2	1.3	1.2
Trade and other payables	23	148.1	145.9	1,707.5	1,304.1
Corporation tax liability		0.9	0.5	0.9	0.7
Derivative financial instruments	25	–	0.4	–	0.4
Provisions	24	–	0.3	–	0.3
		169.2	210.6	1,709.7	1,306.7
Non-current liabilities					
Borrowings	25	1,229.4	1,237.1	1,048.4	1,054.7
Derivative financial instruments	25	–	0.4	–	0.4
Leasehold liabilities	25	34.5	19.4	21.6	22.9
Provisions	24	0.2	0.3	0.2	0.3
Deferred tax	28	0.6	–	–	–
		1,264.7	1,257.2	1,070.2	1,078.3
Total liabilities		1,433.9	1,467.8	2,779.9	2,385.0
Total net assets		4,075.5	4,441.8	1,330.3	1,382.3
Equity					
Share capital	29	5.6	5.6	5.6	5.6
Share premium	30	196.6	195.4	196.6	195.4
Other reserves	30	941.9	941.1	925.9	925.6
Retained earnings ²	30	2,931.4	3,299.7	202.2	255.7
Total equity		4,075.5	4,441.8	1,330.3	1,382.3

¹ Prior year figures have been restated for changes in accounting policies. See note 2 for additional information.

² Retained earnings for the Company include profit for the year of £34.3m (2021: £11.6m).

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2023.

PAUL WILLIAMS
Chief Executive

DAMIAN WISNIEWSKI
Chief Financial Officer

The notes on pages 247 to 304 form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2022

	Share capital £m	Share premium £m	Other reserves ¹ £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
Group							
At 1 January 2022	5.6	195.4	941.1	3,299.7	4,441.8	–	4,441.8
Loss for the year	–	–	–	(280.5)	(280.5)	–	(280.5)
Other comprehensive income/(expense)	–	–	0.5	(2.0)	(1.5)	–	(1.5)
Share-based payments	–	1.2	0.3	1.2	2.7	–	2.7
Dividends paid	–	–	–	(87.0)	(87.0)	–	(87.0)
At 31 December 2022	5.6	196.6	941.9	2,931.4	4,075.5	–	4,075.5
At 1 January 2021	5.6	193.7	939.4	3,124.5	4,263.2	51.9	4,315.1
Profit for the year	–	–	–	252.3	252.3	1.5	253.8
Other comprehensive income	–	–	2.4	2.3	4.7	–	4.7
Share-based payments	–	1.7	(0.7)	5.2	6.2	–	6.2
Dividends paid	–	–	–	(84.6)	(84.6)	–	(84.6)
Acquisition of non-controlling interest	–	–	–	–	–	(53.4)	(53.4)
At 31 December 2021	5.6	195.4	941.1	3,299.7	4,441.8	–	4,441.8
Company							
At 1 January 2022	5.6	195.4	925.6	255.7	1,382.3	–	1,382.3
Profit for the year	–	–	–	34.3	34.3	–	34.3
Other comprehensive expense	–	–	–	(2.0)	(2.0)	–	(2.0)
Share-based payments	–	1.2	0.3	1.2	2.7	–	2.7
Dividends paid	–	–	–	(87.0)	(87.0)	–	(87.0)
At 31 December 2022	5.6	196.6	925.9	202.2	1,330.3	–	1,330.3
At 1 January 2021	5.6	193.7	926.3	321.2	1,446.8	–	1,446.8
Profit for the year	–	–	–	11.6	11.6	–	11.6
Other comprehensive income	–	–	–	2.3	2.3	–	2.3
Share-based payments	–	1.7	(0.7)	5.2	6.2	–	6.2
Dividends paid	–	–	–	(84.6)	(84.6)	–	(84.6)
At 31 December 2021	5.6	195.4	925.6	255.7	1,382.3	–	1,382.3

¹ See note 30.

The notes on pages 247 to 304 form part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2022

	Note	Group		Company	
		2022 £m	2021 Restated ¹ £m	2022 £m	2021 Restated ¹ £m
Operating activities					
Rents received		193.7	187.0	-	-
Surrender premiums and other property income		0.7	5.7	-	-
Property expenses		(22.5)	(14.3)	-	-
Costs recoverable from tenants		(1.9)	-	-	-
Service charge balance inflows		64.5	49.5	-	-
Service charge balance outflows		(61.5)	(49.1)	-	-
Tenant deposit inflows		13.9	1.5	-	-
Tenant deposit outflows		(4.2)	(2.7)	-	-
Cash paid to and on behalf of employees		(25.1)	(26.9)	(25.0)	(26.6)
Other administrative expenses		(8.0)	(7.8)	(8.0)	(8.5)
Interest received	7	0.3	-	0.2	-
Interest paid	7	(33.7)	(21.9)	(26.6)	(19.4)
Other finance costs	7	(3.4)	(3.1)	(2.3)	(2.2)
Other income		4.2	4.1	3.2	3.8
Disposal of trading properties		3.0	5.0	-	-
Expenditure on trading properties/stock		(9.7)	(1.6)	-	-
Tax paid in respect of operating activities		(0.5)	(0.5)	-	-
VAT movement		1.6	4.0	-	-
Net cash from/(used in) operating activities		111.4	128.9	(58.5)	(52.9)
Investing activities					
Acquisition of properties		(137.6)	(251.8)	-	-
Capital expenditure on the property portfolio	7	(120.7)	(172.1)	-	-
Disposal of investment properties		206.7	297.3	-	-
Investment in joint ventures		(0.3)	(64.1)	-	-
Settlement of shareholder loan		-	2.0	-	-
Proceeds from sale of investments		-	-	-	82.0
Purchase of property, plant and equipment		(2.0)	(1.6)	(0.6)	(1.2)
Disposal of property, plant and equipment		-	0.2	-	0.1
VAT movement		2.2	3.5	-	-
Net cash (used in)/from investing activities		(51.7)	(186.6)	(0.6)	80.9
Financing activities					
Net proceeds of green bond issue		-	346.0	-	346.0
Net movement in intercompany loans		-	-	131.8	(153.9)
Net movement in revolving bank loans	27	(10.1)	(117.8)	(10.1)	(117.8)
Proceeds from other loan		7.4	12.3	-	-
Repayment of secured bank loan		-	(28.0)	-	-
Financial derivative termination costs	8	(0.3)	(1.9)	(0.3)	(1.9)
Acquisition of non-controlling interest		-	(53.4)	-	-
Net proceeds of share issues	29	1.2	1.8	1.2	1.8
Dividends paid	32	(86.8)	(84.3)	(86.8)	(84.3)
Net cash (used in)/from financing activities		(88.6)	74.7	35.8	(10.1)
(Decrease)/increase in cash and cash equivalents in the year		(28.9)	17.0	(23.3)	17.9
Cash and cash equivalents at the beginning of the year	33	105.5	88.5	90.6	72.7
Cash and cash equivalents at the end of the year	33	76.6	105.5	67.3	90.6

¹ Prior year figures have been restated for changes in accounting policies. See note 2 for additional information.

The notes on pages 247 to 304 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards, (the 'applicable framework'), and have been prepared in accordance with the provisions of the Companies Act 2006 (the 'applicable legal requirements'). The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, the revaluation of property, plant and equipment, assets held for sale, pension scheme, and financial assets and liabilities held at fair value.

Going concern

The Board continues to adopt the going concern basis in preparing these consolidated financial statements. In considering this requirement, the Directors have taken into account the following:

- The Group's latest rolling forecast for the next two years, in particular the cash flows, borrowings and undrawn facilities.
- The headroom under the Group's financial covenants.
- The risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months.
- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

The Directors have considered the relatively long-term and predictable nature of the income receivable under the tenant leases, the Group's year end loan-to-value ratio for 2022 of 23.9%, the interest cover ratio of 423%, the £577m total of undrawn facilities and cash and the fact that the average maturity of borrowings was 6.2 years at 31 December 2022. The impact of the Covid-19 pandemic on the business and its occupiers has been considered. The impact in 2022 was considerably less than in 2021 as evidenced by a partial reversal in impairment charges and rent collection rates now close to that seen pre-pandemic. Office occupation rates are also gradually recovering. The likely impact of climate change has been incorporated into the Group's forecasts and has taken account of the impact of EPC upgrades across the portfolio, estimated at £99m. Based on the Group's forecasts, rental income would need to decline by 65% and property values would need to fall by 60% before breaching its financial covenants. Further information is provided in the Group's viability statement on page 108.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review. In addition, the Group's risks and risk management processes can be found within the risk management and internal controls.

Having due regard to these matters and after making appropriate enquiries, the Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing of these consolidated financial statements and, therefore, the Board continues to adopt the going concern basis in their preparation.

2 CHANGES IN ACCOUNTING POLICIES

The principal accounting policies are described in note 43 and are consistent with those applied in the Group's financial statements for the year to 31 December 2021, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

New standards adopted during the year

The following standards, amendments and interpretations were effective for the first time for the Group's current accounting period and had no material impact on the financial statements.

- Reference to the Conceptual Framework (amendments to IFRS 3);
- IFRS 16 (amended) – Covid-19-related Rent Concessions;
- IAS 37 (amended) – Onerous Contracts – Cost of Fulfilling a Contract;
- Annual Improvements to IFRS Standards 2018-2020;
- IAS 16 (amended) – Property, Plant and Equipment: Proceeds before Intended Use.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

2 CHANGES IN ACCOUNTING POLICIES continued

Standards in issue but not yet effective

The following standards, amendments and interpretations were in issue at the date of approval of these financial statements but were not yet effective for the current accounting period and have not been adopted early. Based on the Group's current circumstances, the Directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Group.

IFRS 17 (amended) – Insurance Contracts;

IAS 1 (amended) – Classification of liabilities as current or non-current, Non-current Liabilities with Covenants;

IAS 1 and IFRS Practice Statement 2 (amended) – Disclosure of Accounting Policies;

IAS 8 (amended) – Definition of Accounting Estimate;

IAS 12 (amended) – Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction;

IFRS 16 (amended) – Lease Liability in a Sale and Leaseback;

IFRS 17 (amended) and IFRS 9 – Comparative Information.

Restatement – IFRIC Agenda Decision – Forgiveness of lease payments

In October 2022, the IFRS Interpretations Committee ('IFRIC') released its decision on the application of IFRS 9 and IFRS 16 in relation to how a lessor should account for the forgiveness of amounts due under leases.

It was determined that for any rent receivables that are past their due dates and subsequently forgiven, the lessor should apply the expected credit loss (ECL) model in IFRS 9. Therefore, the forgiveness will be subject to the derecognition and impairment requirements in IFRS 9, and the impact of relevant receivable amounts written off reflected in the income statement. The Group had previously treated the forgiveness of rent receivables, in particular Covid-19 concessions, that were past their due dates as lease modifications under IFRS 16, rather than the updated guidance of applying IFRS 9.

However, forgiveness of future rent not currently due meets the definition of a lease modification in IFRS 16. The impact of this forgiveness is recognised on a straight-line basis over the remaining term of the lease, which is consistent with the Group's treatment.

The adjustments required to amounts forgiven for receivables past their due date, including the remeasurement of the ECL, have been recalculated and the impact determined to be immaterial for each individual financial year. However, the Group has voluntarily elected to apply IFRS 9 where applicable. This includes adjusting the relevant 2020 opening balances and restating the 2021 comparative information. In the income statement, the restatement has resulted in a change to gross rental income, write-off/impairment of receivables and revaluation movement with no impact in the total profit/(loss) in the respective years. In addition, there is no impact on the total net assets within the balance sheets, with adjustments in rents recognised in advance (trade and other receivables), provision for bad debts, and investment property. The impact of these adjustments is shown on the following page. As the impact is not material, in accordance with IAS 1 Presentation of Financial Statements the Group has not presented revised balance sheets as at 31 December 2020 within the financial statements.

Restatement – IFRIC Agenda Decision – Recognition of Tenant Deposits as restricted cash

In March 2022, the IFRS Interpretations Committee ('IFRIC') finalised a decision with respect to the treatment of demand deposits with restrictions on use, which includes tenant rent deposits. It was concluded that these deposits, which are subject to contractual restrictions, meet the definition of 'cash and cash equivalents' under IAS 7 and should therefore be included as restricted cash under 'cash and cash equivalents' within the financial statements. The Group had not previously recognised tenant rent deposits on its balance sheets as these deposits are only available upon a tenant defaulting under the terms of its lease and are normally refunded upon expiry. As a result of the IFRIC decision, the Group has revisited its policy and has now included tenant rent deposits as restricted cash with a restatement to the prior year comparatives. The adjustment has no impact on the net assets of the Group, but cash and cash equivalents have increased by £17.6m (2020: £18.8m) with a corresponding increase in other payables. The movement in tenant rent deposits has been included in net cash from operating activities in the cash flow statement.

Cash collected on behalf of tenants to fund service charges of properties in the portfolio was previously recognised within trade and other receivables. This has now been reclassified and presented as restricted cash within 'cash and cash equivalents'. For the prior year, the adjustment has no impact on the net assets of the Group, with cash and cash equivalents increasing by £19.4m (2020: £19.0m) and a corresponding decrease of in trade and other receivables. The movement in service charge balances has been included in net cash from operating activities in the cash flow statement.

The impact of these adjustments is shown on the following page. As the total impact of both tenant deposits and service charge balances is not material, the Group has not presented revised balance sheets as at 31 December 2020 within the financial statements, in accordance with IAS 1 Presentation of Financial Statements.

The following table shows the impact of these adjustments in the prior years.

2021				
	31 December £m	Restatement ¹ £m	Restatement ² £m	31 December Restated £m
Group balance sheet (extract)				
Investment property	5,359.9	1.3	–	5,361.2
Trade and other receivables	61.7	(1.3)	(19.4)	41.0
Cash and cash equivalents	68.5	–	37.0	105.5
Trade and other payables	(128.3)	–	(17.6)	(145.9)
	5,361.8	–	–	5,361.8
Group income statement (extract)				
Net property and other income				
Gross rental income	194.2	1.1	–	195.3
Movement in impairment of receivables	(0.8)	(1.4)	–	(2.2)
Revaluation surplus	130.8	0.3	–	131.1
	324.2	–	–	324.2
Group cash flow statement (extract)				
Net cash from operating activities	125.7	–	(0.8)	124.9
	125.7	–	(0.8)	124.9
2020				
	31 December £m	Restatement ¹ £m	Restatement ² £m	31 December Restated £m
Group balance sheet (extract)				
Investment property	5,029.1	1.4	–	5,030.5
Trade and other receivables	76.2	(1.4)	(19.0)	55.8
Cash and cash equivalents	50.7	–	37.8	88.5
Trade and other payables	(106.7)	–	(18.8)	(125.5)
	5,049.3	–	–	5,049.3
Group income statement (extract)				
Net property and other income				
Gross rental income	202.9	0.5	–	203.4
Movement in impairment of receivables	(10.1)	(1.9)	–	(12.0)
Revaluation deficit	(196.1)	1.4	–	(194.7)
	(3.3)	–	–	(3.3)
Group cash flow statement (extract)				
Cash and cash equivalents at the end of the year	50.7	–	37.8	88.5
	50.7	–	37.8	88.5

1 Restatement in relation to IFRIC Agenda Decision – Forgiveness of lease payments.

2 Restatement in relation to IFRIC Agenda Decision – Recognition of Tenant Deposits as restricted cash and service charge reclassification.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

2 CHANGES IN ACCOUNTING POLICIES continued

	2021			31 December Restated £m
	31 December £m	Restatement ¹ £m	Restatement ² £m	
Company balance sheet (extract)				
Cash and cash equivalents	68.2	–	22.4	90.6
Trade and other payables	(1,281.7)	–	(22.4)	(1,304.1)
	(1,213.5)	–	–	(1,213.5)
Company cash flow statement (extract)				
Net cash used in financing activities	(9.9)	–	(0.2)	(10.1)
	(9.9)	–	(0.2)	(10.1)
	2020			31 December Restated £m
	31 December £m	Restatement ¹ £m	Restatement ² £m	
Company balance sheet (extract)				
Cash and cash equivalents	50.1	–	22.6	72.7
Trade and other payables	(1,072.9)	–	(22.6)	(1,095.5)
	(1,022.8)	–	–	(1,022.8)
Company cash flow statement (extract)				
Cash and cash equivalents at the end of the year	50.1	–	22.6	72.7
	50.1	–	22.6	72.7

1 Restatement in relation to IFRIC Agenda Decision – Forgiveness of lease payments.

2 Restatement in relation to IFRIC Agenda Decision – Recognition of Tenant Deposits as restricted cash and service charge reclassification.

Re-presentation of VAT in Group cash flow statement

The Group has re-presented the cash flow statement for the year ended 31 December 2021, to separate VAT movements as either operating activities or investing activities. This has the effect of increasing the net cash from operations in 2021 by £4.0m with a corresponding increase in the net cash used in investing activities. There is no impact upon the cash flow statement overall.

Restatement of Property portfolio, historical cost

The disclosure of historical cost of the property portfolio within note 16 comparatives have been restated by £69.7m to £3,464.4m to correct an error in the calculation of the historical cost.

3 SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

The preparation of financial statements in accordance with the applicable framework requires the use of certain significant accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The Group's significant accounting policies are stated in note 43. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements.

Key sources of estimation uncertainty

Property portfolio valuation

The Group uses the valuation carried out by external valuers as the fair value of its property portfolio. The valuation considers a range of assumptions including future rental income, investment yields, anticipated outgoings and maintenance costs, future development expenditure and appropriate discount rates. The external valuers also make reference to market evidence of transaction prices for similar properties and take into account the impact of climate change and related Environmental, Social and Governance considerations. Knight Frank LLP were appointed to value the whole London-based portfolio as at 31 December 2022. More information is provided in note 16.

Impairment testing of trade receivables and other financial assets

Trade receivables and accrued rental income recognised in advance of receipt are subject to impairment testing. This accrued rental income arises due to the spreading of rent-free and reduced rent periods, capital contributions and contracted rent uplifts in accordance with IFRS 16 Leases.

Impairment calculations have been carried out using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. The impact of the Covid-19 pandemic on the Group's business and its occupiers has been considered and in 2022 the severity of the impact was considerably less than in 2021 as evidenced by a partial reversal in impairment charges and rent collection rates now close to that seen pre-pandemic. The result is a £3.3m reduction in the provision and after adding receivable balances written off of £2.3m, the total credit to the income statement for 2022 was £1.0m, compared to the restated £2.2m charge recognised in 2021. In arriving at the estimates, the Group considered the tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA, the top 64 tenants by size and has also considered the remaining balances classified by sector.

The impairment provisions are included within 'Other receivables (non-current)' (see note 20) and 'Trade and other receivables' (see note 21) as shown below:

	Other receivables (non-current) £m	Trade and other receivables (current) £m	Total £m
Lease incentive receivables before impairment	167.8	24.3	192.1
Impairment of lease incentive receivables	(2.4)	(0.7)	(3.1)
Write-off	(0.2)	–	(0.2)
Net lease incentive included within accrued income	165.2	23.6	188.8
Trade receivables before impairment	–	9.0	9.0
Impairment of trade receivables	–	(1.8)	(1.8)
Service charge provision	–	(0.1)	(0.1)
Write-off	–	(2.2)	(2.2)
Net trade receivables	–	4.9	4.9

The assessment considered the risk of tenant failures or defaults using information on tenants' payment history, deposits held, the latest known financial position together with forecast information where available, ongoing dialogue with tenants as well as other information such as the sector in which they operate. Following this, tenants were classified as either low, medium or high risk and the table below provides further information. The impairment against lease incentive receivable balances was £3.1m and against trade receivable balances was £1.9m.

	Lease incentive receivables (non-current) £m	Lease incentive receivables (current) £m	Trade receivables (current) £m
Balance before impairment			
Low risk	158.4	19.5	3.3
Medium risk	4.6	3.2	1.7
High risk	4.6	1.6	1.8
	167.6	24.3	6.8
Impairment			
Low risk	–	–	–
Medium risk	(0.2)	(0.1)	(0.1)
High risk	(2.2)	(0.6)	(1.8)
	(2.4)	(0.7)	(1.9)
	165.2	23.6	4.9

Borrowings and derivatives

The fair values of the Group's borrowings and interest rate swaps are provided by an independent third party based on information provided to them by the Group. This includes the terms of each of the financial instruments and data available in the financial markets. More information on how fair values are derived is provided in note 25. The fair values of the Group's borrowings and derivatives are shown in note 26.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

3 SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES continued

Significant judgements

Compliance with the real estate investment trust (REIT) taxation regime

As a REIT, the Group benefits from tax advantages. Income and chargeable gains on the qualifying property rental business are exempt from corporation tax. Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. There are a number of tests that are applied annually, and in relation to forecasts, to ensure the Group remains well within the limits allowed within those tests.

The Group met all the criteria in 2022 with a substantial margin in each case, thereby ensuring its REIT status is maintained. The Directors intend that the Group should continue as a REIT for the foreseeable future.

The Group has maintained its low risk rating with HMRC following continued regular dialogue and a focus on transparency and full disclosure.

4 SEGMENTAL INFORMATION

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision makers (which in the Group's case are the four Executive Directors assisted by the other ten members of the Executive Committee) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include IFRS figures but also report non-IFRS figures for the EPRA earnings and net asset value. Reconciliations of each of these figures to their statutory equivalents are detailed in note 40. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate reportable segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 97% office buildings¹ by value at 31 December 2022 (2021: 97%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single reportable segment. The remaining 3% (2021: 3%) represented a mixture of retail, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the Strategic report. The majority of the Group's properties are located in London (West End central, West End borders/other and City borders), with the remainder in Scotland (Provincial).

¹ Some office buildings have an ancillary element such as retail or residential.

Gross property income

	2022			2021 Restated		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
West End central	118.3	1.5	119.8	109.5	0.3	109.8
West End borders/other	16.3	–	16.3	18.5	–	18.5
City borders	67.2	0.5	67.7	67.6	0.5	68.1
Provincial	–	4.6	4.6	–	4.5	4.5
Gross property income (excl. joint venture)	201.8	6.6	208.4	195.6	5.3	200.9
Share of joint venture gross property income	2.1	–	2.1	0.4	–	0.4
	203.9	6.6	210.5	196.0	5.3	201.3

A reconciliation of gross property income to gross property and other income is given in note 5.

Property portfolio

	2022			2021 Restated		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	3,123.9	81.2	3,205.1	3,314.9	82.2	3,397.1
West End borders/other	356.9	–	356.9	408.1	–	408.1
City borders	1,494.5	10.4	1,504.9	1,649.7	8.4	1,658.1
Provincial	–	78.7	78.7	–	82.2	82.2
Group (excl. joint venture)	4,975.3	170.3	5,145.6	5,372.7	172.8	5,545.5
Share of joint venture	42.6	–	42.6	50.2	–	50.2
	5,017.9	170.3	5,188.2	5,422.9	172.8	5,595.7
Fair value						
West End central	3,234.9	86.3	3,321.2	3,348.9	84.2	3,433.1
West End borders/other	376.6	–	376.6	431.4	–	431.4
City borders	1,534.2	10.4	1,544.6	1,690.4	8.4	1,698.8
Provincial	–	79.4	79.4	–	83.0	83.0
Group (excl. joint venture)	5,145.7	176.1	5,321.8	5,470.7	175.6	5,646.3
Share of joint venture	42.4	–	42.4	50.0	–	50.0
	5,188.1	176.1	5,364.2	5,520.7	175.6	5,696.3

A reconciliation between the fair value and carrying value of the portfolio is set out in note 16.

5 PROPERTY AND OTHER INCOME

	2022 £m	2021 Restated £m
Gross rental income	207.0	195.3
Surrender premiums received	1.1	3.6
Other property income	0.3	2.0
Gross property income	208.4	200.9
Trading property sales proceeds ¹	1.6	6.7
Service charge income ¹	34.6	30.2
Other income ¹	4.2	3.5
Gross property and other income	248.8	241.3
Gross rental income	207.0	195.3
Movement in impairment of receivables	1.0	(2.2)
Service charge income ¹	34.6	30.2
Service charge expenses	(39.7)	(33.6)
	(5.1)	(3.4)
Property costs	(14.4)	(11.8)
Net rental income	188.5	177.9
Trading property sales proceeds ¹	1.6	6.7
Trading property cost of sales	(1.4)	(6.0)
Profit on trading property disposals	0.2	0.7
Other property income	0.3	2.0
Other income ¹	4.2	3.5
Surrender premiums received	1.1	3.6
Dilapidation receipts	0.5	0.9
Write-down of trading property	(0.2)	(1.4)
Net property and other income	194.6	187.2

¹ In line with IFRS 15 Revenue from Contracts with Customers, the Group recognised a total of £40.4m (2021: £40.4m) of other income, trading property sales proceeds and service charge income, which relates to expenditure that is directly recoverable from tenants, within gross property and other income.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

5 PROPERTY AND OTHER INCOME continued

As described in note 2, gross rental income and movement in impairment of receivables have been restated in accordance with the guidance provided by the IFRS Interpretations Committee.

Gross rental income includes £20.3m (2021 restated: £19.5m) relating to rents recognised in advance of cash receipts.

Other income relates to fees and commissions earned from tenants in relation to the management of the Group's properties and was recognised in the Group income statement in accordance with the delivery of services.

The impairment review has been carried out using the expected credit loss model within IFRS 9 Financial Instruments (see notes 3 and 21 for additional information). Included in this provision is a charge of £0.4m against trade receivables relating to rental income for the 25 December 2022 quarter day. Most of this income is deferred and has not yet been recognised in the income statement. A 10% increase/decrease to the absolute probability rates of tenant default in the year would result in a £1.6m increase/decrease and £1.2m decrease/increase respectively, in the Group's profit/loss for the year. This sensitivity has been performed on the medium to high risk tenants as the significant estimation uncertainty is wholly related to these.

6 PROFIT ON DISPOSAL

	2022 £m	2021 £m
Investment property		
Gross disposal proceeds	209.6	402.4
Costs of disposal	(3.2)	(3.7)
Net disposal proceeds	206.4	398.7
Carrying value	(180.8)	(387.5)
Adjustment for lease costs and rents recognised in advance	–	(0.7)
Profit on disposal of investment property	25.6	10.5
Artwork		
Carrying value	–	(0.1)
Loss on disposal of artwork	–	(0.1)
Profit on disposal	25.6	10.4

Included within gross disposal proceeds for 2022 is £67.2m relating to the disposal of the Group's freehold interest in New River Yard EC1 in June 2022, £85.0m relating to the disposal of the Group's freehold interest in Bush House, South West Wing WC2 in July 2022, and £40.5m relating to the disposal of the Group's leasehold interest in 2 & 4 Soho Place W1 in July 2022. In addition, gross disposal proceeds also included £15.3m following completion of the grant of an intermediate long leasehold interest in relation to the Soho Place W1 development agreement.

7 FINANCE INCOME AND FINANCE COSTS

	2022 £m	2021 £m
Finance income		
Bank interest receivable	(0.2)	–
Other	(0.1)	–
Finance income	(0.3)	–
Finance costs		
Bank loans	1.1	0.9
Non-utilisation fees	2.1	2.1
Unsecured convertible bonds	3.9	3.9
Unsecured green bonds	6.7	0.8
Secured bonds	11.4	11.4
Unsecured private placement notes	15.6	15.6
Secured loan	3.3	3.3
Amortisation of issue and arrangement costs	2.6	2.5
Amortisation of the fair value of the secured bonds	(1.4)	(1.3)
Obligations under headleases	1.1	0.7
Other	0.3	0.2
Gross finance costs	46.7	40.1
Less: interest capitalised	(7.0)	(12.0)
Finance costs	39.7	28.1

Finance costs of £7.0m (2021: £12.0m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total finance costs paid to 31 December 2022 were £44.1m (2021: £37.0m) of which £7.0m (2021: £12.0m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

8 FINANCIAL DERIVATIVE TERMINATION COSTS

The Group incurred costs of £0.3m in the year to 31 December 2022 (2021: £1.9m) deferring or terminating interest rate swaps. Included in this is £0.3m of receipts and £0.6m of costs.

9 SHARE OF RESULTS OF JOINT VENTURES

	2022 £m	2021 £m
Net property income	2.1	0.4
Administrative expenses	(0.1)	(0.1)
Revaluation deficit	(9.3)	(10.2)
	(7.3)	(9.9)
Joint venture acquisition costs incurred	–	(4.0)
	(7.3)	(13.9)

The share of results of joint ventures for the year ended 31 December 2022 includes the Group's 50% share in the Derwent Lazari Baker Street Limited Partnership. See note 19 for further details of the Group's joint ventures.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

10 (LOSS)/PROFIT BEFORE TAX

	2022 £m	2021 £m
This is arrived at after charging:		
Depreciation	1.0	0.9
Contingent rent payable under headleases	1.7	1.4
Auditor's remuneration		
Audit – Group	0.4	0.4
Audit – subsidiaries	0.2	0.1

In 2022, audit fees for the Group were £400,000 (2021: £435,718) and for the subsidiaries £159,000 (2021: £94,180). The prior year comparatives include additional fees billed for scope changes and cost overruns. Fees for non-audit services, relating to the half year review, were £64,000 (2021: £60,000) and other non-audit services were £nil (2021: £90,000).

Details of the Auditor's independence are included on page 166.

11 DIRECTORS' EMOLUMENTS

	2022 £m	2021 £m
Remuneration for management services	4.1	4.0
Share-based payments	0.5	3.6
Post-employment benefits	0.4	0.5
	5.0	8.1
National insurance contributions	0.7	1.1
	5.7	9.2

An amount of £0.6m (2021: £1.7m) relating to the Directors is included within Share-based payments expense of £1.9m (2021: £4.3m) relating to equity-settled schemes in note 12. This is in accordance with IFRS 2 Share-based Payment.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 190 to 223. The only key management personnel are the Directors.

12 EMPLOYEES

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Staff costs, including those of Directors:				
Wages and salaries	18.8	18.5	18.8	18.5
Social security costs	2.7	2.5	2.6	2.3
Other pension costs	2.6	2.4	2.4	2.2
Share-based payments expense relating to equity-settled schemes	1.9	4.3	1.9	4.4
	26.0	27.7	25.7	27.4

The monthly average number of employees in the Group during the year, excluding Directors, was 166 (2021: 140). The monthly average number of employees in the Company during the year, excluding Directors, was 140 (2021: 120). All were employed in administrative or support roles. Of the Group's employees, there were 37 (2021: 39) whose costs were recharged or partially recharged to tenants via service charges.

13 SHARE-BASED PAYMENTS

Details of the options held by Directors under the Performance Share Plan (PSP) are given in the report of the Remuneration Committee on page 219.

Group and Company – equity-settled option scheme

The Employee Share Option Plan (ESOP) is designed to incentivise and retain eligible employees. The ESOP is separate to the PSP disclosed in the report of the Remuneration Committee. The Directors are not entitled to any awards under the ESOP.

Year of grant	Exercise price £	Adjusted exercise ¹ £	Outstanding at 1 January	Movement in options			Outstanding at 31 December
				Granted	Exercised	Lapsed	
For the year to 31 December 2022							
2013	21.99	21.09	4,158	–	(3,908)	–	250
2014	27.39	26.27	17,050	–	(3,607)	–	13,443
2015	34.65	33.23	35,062	–	–	(4,012)	31,050
2016	31.20	29.93	37,635	–	(3,648)	–	33,987
2017	28.93	27.75	70,553	–	(5,212)	(1,791)	63,550
2018	30.29	29.57	91,835	–	(4,609)	(2,809)	84,417
2019	32.43	32.43	124,025	–	(5,000)	(10,200)	108,825
2020	30.02	30.02	165,975	–	–	(18,617)	147,358
2021	33.28	33.28	200,829	–	–	(18,415)	182,414
2022	31.10	31.10	–	249,950	–	(6,609)	243,341
			747,122	249,950	(25,984)	(62,453)	908,635
For the year to 31 December 2021							
2013	21.99	21.09	4,158	–	–	–	4,158
2014	27.39	26.27	18,650	–	(1,600)	–	17,050
2015	34.65	33.23	43,474	–	(5,807)	(2,605)	35,062
2016	31.20	29.93	38,397	–	(762)	–	37,635
2017	28.93	27.75	99,446	–	(28,893)	–	70,553
2018	30.29	29.57	114,234	–	(22,399)	–	91,835
2019	32.43	32.43	129,575	–	–	(5,550)	124,025
2020	30.02	30.02	172,475	–	–	(6,500)	165,975
2021	33.28	33.28	–	204,079	–	(3,250)	200,829
			620,409	204,079	(59,461)	(17,905)	747,122
					31 December 2022	31 December 2021	1 January 2021
Number of shares:							
Exercisable					335,522	256,293	204,125
Non-exercisable					573,113	490,829	416,284
Weighted average exercise price of share options:							
Exercisable					£30.46	£29.37	£29.23
Non-exercisable					£31.52	£31.96	£30.66
Weighted average remaining contracted life of share options:							
Exercisable					4.72 years	4.92 years	5.29 years
Non-exercisable					7.47 years	7.30 years	8.36 years
Weighted average exercise price of share options that lapsed:							
Exercisable					£31.87	£33.23	£27.81
Non-exercisable					£31.51	£31.56	£31.14

¹ In 2018, following the payment of the special dividend of 75 pence per share, the Remuneration Committee exercised their discretion and adjusted the number of outstanding unapproved 'B' options and their option price, to ensure participants were not disadvantaged by the payment to shareholders of the special dividend.

The weighted average share price at which options were exercised during 2022 was £33.02 (2021: £35.82).

The weighted average fair value of options granted during 2022 was £6.85 (2021: £8.23).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

13 SHARE-BASED PAYMENTS continued

The following information is relevant in the determination of the fair value of the options granted during 2022 and 2021 under the equity-settled employee share plan operated by the Group.

	2022	2021
Option pricing model used	Binomial lattice	Binomial lattice
Risk free interest rate	1.5%	0.3%
Volatility	25.0%	30.0%
Dividend yield	2.5%	2.2%

For both the 2022 and 2021 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

The volatility assumption, measured as the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last four years.

Group and Company – Save As You Earn scheme

The Save As You Earn (SAYE) is designed to allow employees (including Directors) to purchase shares in the Company in a tax efficient manner. The SAYE plan is an HMRC approved scheme. Employees can participate on an annual basis and save up to £250 per month per grant. Further details are given in the report of the Remuneration Committee on page 220.

14 PENSION COSTS

The Group and Company operate both a defined contribution scheme and a defined benefit scheme. The latter was acquired as part of the acquisition of London Merchant Securities plc in 2007 and is closed to new members. All new employees are entitled to join the defined contribution scheme. The assets of the pension schemes are held separately from those of Group companies.

Defined contribution plan

The total expense relating to this plan in the current year was £2.3m (2021: £2.0m).

Defined benefit plan

The Company sponsors the scheme which is a funded defined benefit arrangement. This is a separate trustee-administered fund holding the pension scheme assets to meet long-term pension liabilities for past employees. The scheme closed to future benefit accrual on 31 July 2019. The level of retirement benefit is principally based on basic salary at the last scheme anniversary of employment prior to leaving active service and increases at 5% pa in deferment.

The trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. The appointment of the trustees is determined by the scheme's trust documentation. It is policy that one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 31 October 2019 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the scheme is agreed between the Company and the trustees in line with those requirements. The 31 October 2022 actuarial valuation is currently ongoing. The funding valuation requires the surplus/deficit to be calculated using prudent actuarial assumptions, as opposed to best estimate assumptions required for pensions accounting purposes.

The 2019 actuarial valuation showed a deficit of £7.3m. The Company agreed with the trustees that it will aim to eliminate the deficit over a period of 5 years and 2 months from 31 October 2019 by the payment of a contribution of £0.9m by 31 December 2019, followed by annual contributions of £1.4m payable by each 31 December from 31 December 2020 to 31 December 2024 inclusive. In addition, the Company has agreed with the trustees that the Company will meet expenses of running the scheme and levies to the Pension Protection Fund separately. The estimated amount of total employer contributions expected to be paid to the scheme during the year to 31 December 2023 is £1.4m (31 December 2022 actual: £1.4m).

For the purposes of IAS 19 the actuarial valuation as at 31 October 2019, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2022.

Amounts included in the balance sheet

	2022 £m	2021 £m	2020 £m
Fair value of plan assets	42.2	62.7	66.6
Present value of defined benefit obligation	(41.0)	(60.9)	(68.8)
Net asset/(liability)	1.2	1.8	(2.2)

The present value of the scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the scheme. The value calculated in this way is reflected in the net asset/(liability) in the balance sheet as shown above.

All actuarial gains and losses are recognised in the year in which they occur in the Group Statement of Comprehensive income.

Reconciliation of the impact of the asset ceiling

We have considered the application of IFRIC 14 and deemed it to have no material effect on the IAS 19 figures.

Reconciliation of the opening and closing present value of the defined benefit obligation

	2022 £m	2021 £m
At 1 January	60.9	68.8
Current service cost	–	–
Interest cost	1.1	0.8
Actuarial losses due to scheme experience	–	0.7
Actuarial gains due to changes in demographic assumptions	–	(0.1)
Actuarial gains due to changes in financial assumptions	(18.4)	(6.9)
Benefits paid, death in service premiums and expenses	(2.6)	(2.4)
At 31 December	41.0	60.9

There have been no scheme amendments, curtailments or settlements in the year.

Reconciliation of opening and closing values of the fair value of plan assets

	2022 £m	2021 £m
At 1 January	62.7	66.6
Interest income	1.1	0.8
Return on plan assets (excluding amounts included in interest income)	(20.4)	(3.6)
Contributions by the Group	1.4	1.4
Benefits paid, death in service premiums and expenses	(2.6)	(2.4)
Other	–	(0.1)
At 31 December	42.2	62.7

The actual return on the plan assets including interest income over the year was a loss of £19.3m (2021: loss of £2.8m).

Amounts recognised in other comprehensive income

	2022 £m	2021 £m
Loss on plan assets (excluding amounts recognised in net interest cost)	(20.4)	(3.6)
Experience losses arising on the defined benefit obligation	–	(0.7)
Gain from changes in the demographic assumptions underlying the present value of the defined benefit obligation	–	0.1
Gain from changes in the financial assumptions underlying the present value of the defined benefit obligation	18.4	6.9
Total (loss)/gain recognised in other comprehensive income	(2.0)	2.7

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for the year ended 31 December 2022

14 PENSION COSTS continued

Fair value of plan assets

	2022 £m	2021 £m	2020 £m
UK equities	–	0.6	0.5
Overseas equities	–	0.6	0.5
LDI	4.5	6.2	–
Buy and maintain credit	2.7	4.1	–
Government bonds	–	–	4.8
Cash	1.2	1.4	0.2
Other	4.2	9.3	15.1
Insured assets	29.6	40.5	45.5
Total assets	42.2	62.7	66.6

The £4.2m (2021: £9.3m) in the 'other' asset class is made up of holdings of £2.7m (2021: £5.5m) in equity-linked bonds, £nil (2021: £2.4m) in global funds and £1.5m (2021: £1.4m) in sterling liquidity funds.

The scheme's assets are held exclusively within instruments with quoted market prices in an active market with the exception of the holdings in insurance policies and the trustee's bank account. The insured assets have been set equal to the value of the insured liabilities but before allowance has been made for the impact of equalising benefits for the different effects of GMP for males and females.

The scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group.

It is the policy of the trustees and the Group to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are illustrated by the asset allocation at 31 December 2022.

There are no asset-liability matching strategies currently being used by the plan.

Significant actuarial assumptions

	2022 %	2021 %	2020 %
Discount rate	4.8	1.9	1.2
Inflation (RPI)	n/a	n/a	n/a
Salary increases	n/a	n/a	n/a
Allowance for commutation of pension for cash at retirement	75% of Post A Day Pension	75% of Post A Day Pension	75% of Post A Day Pension

The mortality assumptions adopted at 31 December 2022 are 85% of the standard tables S3NXA_L, year of birth, no age rating for males and females, projected using CMI 2021 converging to 1.25% p.a. These imply the following life expectancies:

Life expectancy at age 65	Years
Male retiring in 2022	24.9
Female retiring in 2022	26.1
Male retiring in 2042	26.1
Female retiring in 2042	27.8

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% p.a	Increase by 3.0%
Rate of mortality	Increase in life expectancy of one year	Increase by 5.0%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The average duration of the defined benefit obligation at the year ended 31 December 2022 is 12 years (2021: 15 years) for the scheme as a whole or 22 years (2021: 25 years) when only considering non-insured members.

The scheme typically exposes the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to the scheme's liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in the income statement. This effect would be partially offset by an increase in the value of the scheme's bond holdings.

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2023 is £1.4m.

15 TAX CHARGE/(CREDIT)

	2022 £m	2021 £m
Corporation tax		
UK corporation tax and income tax in respect of results for the year	0.5	0.9
Other adjustments in respect of prior years' tax	0.4	(0.4)
Corporation tax charge	0.9	0.5
Deferred tax		
Origination and reversal of temporary differences	0.1	(1.1)
Adjustment for changes in estimates	–	(0.7)
Deferred tax charge/(credit)	0.1	(1.8)
Tax charge/(credit)	1.0	(1.3)

In addition to the tax charge of £1.0m (2021: credit of £1.3m) that passed through the Group income statement, a deferred tax charge of £0.2m (2021: £1.3m) relating to the revaluation of the owner-occupied property at 25 Savile Row W1 was recognised in the Group statement of comprehensive income. In 2021, a charge of £0.4m relating to the future defined benefit pension liabilities was also recognised in the Group statement of comprehensive income.

The effective rate of tax for 2022 is lower (2021: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2022 £m	2021 £m
(Loss)/profit before tax	(279.5)	252.5
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%) ¹	(53.1)	48.0
Difference between tax and accounting profit on disposals	(3.1)	(0.7)
REIT exempt income	(16.0)	(14.9)
Revaluation deficit/(surplus) attributable to REIT properties	78.6	(32.2)
Expenses and fair value adjustments not allowable for tax purposes	0.4	4.6
Capital allowances	(6.5)	(4.3)
Other differences	0.3	(1.4)
Tax charge/(credit) in respect of (loss)/profit for the year	0.6	(0.9)
Adjustments in respect of prior years' tax	0.4	(0.4)
Tax charge/(credit)	1.0	(1.3)

¹ Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2021 (on 24 May 2021) and include increasing the main rate to 25% effective on or after 1 April 2023. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

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for the year ended 31 December 2022

16 PROPERTY PORTFOLIO

Group	Freehold £m	Leasehold £m	Total investment property £m	Owner- occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Carrying value							
At 1 January 2022	4,140.4	1,220.8	5,361.2	49.3	102.8	32.2	5,545.5
Acquisitions	0.1	132.9	133.0	–	–	–	133.0
Capital expenditure	47.7	58.8	106.5	–	–	8.3	114.8
Interest capitalisation	1.3	3.9	5.2	–	1.4	0.4	7.0
Additions	49.1	195.6	244.7	–	1.4	8.7	254.8
Disposals	(46.6)	(30.0)	(76.6)	–	(104.2)	(1.3)	(182.1)
Transfers	(54.2)	–	(54.2)	–	54.2	–	–
Revaluation	(388.2)	(33.9)	(422.1)	0.7	–	–	(421.4)
Write-down of trading property	–	–	–	–	–	(0.2)	(0.2)
Movement in grossing up of headlease liabilities	–	(51.0)	(51.0)	–	–	–	(51.0)
At 31 December 2022	3,700.5	1,301.5	5,002.0	50.0	54.2	39.4	5,145.6
At 1 January 2021 (restated)	3,894.9	1,135.6	5,030.5	45.6	165.0	12.9	5,254.0
Acquisitions	214.6	139.0	353.6	–	–	–	353.6
Capital expenditure	76.6	88.4	165.0	–	–	1.1	166.1
Interest capitalisation	2.4	9.6	12.0	–	–	–	12.0
Additions	293.6	237.0	530.6	–	–	1.1	531.7
Disposals	(75.8)	(146.7)	(222.5)	–	(165.0)	(5.9)	(393.4)
Transfers	(63.7)	(63.0)	(126.7)	–	101.2	25.5	–
Revaluation (restated)	91.4	39.3	130.7	3.7	–	–	134.4
Write-down of trading property	–	–	–	–	–	(1.4)	(1.4)
Transfer from prepayments and accrued income	–	–	–	–	1.6	–	1.6
Movement in grossing up of headlease liabilities	–	3.8	3.8	–	–	–	3.8
Movement in grossing up of other liabilities	–	14.8	14.8	–	–	–	14.8
At 31 December 2021 (restated)	4,140.4	1,220.8	5,361.2	49.3	102.8	32.2	5,545.5
Adjustments from fair value to carrying value							
At 31 December 2022							
Fair value	3,865.8	1,307.1	5,172.9	50.0	54.7	44.2	5,321.8
Selling costs relating to assets held for sale	–	–	–	–	(0.5)	–	(0.5)
Revaluation of trading property	–	–	–	–	–	(4.8)	(4.8)
Lease incentives and costs included in receivables	(165.3)	(39.8)	(205.1)	–	–	–	(205.1)
Grossing up of headlease liabilities	–	34.2	34.2	–	–	–	34.2
Carrying value	3,700.5	1,301.5	5,002.0	50.0	54.2	39.4	5,145.6
At 31 December 2021							
Fair value	4,296.2	1,161.9	5,458.1	49.3	104.8	34.1	5,646.3
Selling costs relating to assets held for sale	–	–	–	–	(2.0)	–	(2.0)
Revaluation of trading property	–	–	–	–	–	(1.9)	(1.9)
Lease incentives and costs included in receivables (restated)	(155.8)	(26.3)	(182.1)	–	–	–	(182.1)
Grossing up of headlease liabilities	–	70.4	70.4	–	–	–	70.4
Grossing up of other liabilities	–	14.8	14.8	–	–	–	14.8
Carrying value (restated)	4,140.4	1,220.8	5,361.2	49.3	102.8	32.2	5,545.5
Reconciliation of fair value							
					2022 £m		2021 £m
Portfolio including the Group's share of joint ventures					5,364.2		5,696.3
Less: joint ventures					(42.4)		(50.0)
IFRS property portfolio					5,321.8		5,646.3

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2022 by external valuers on the basis of fair value in accordance with The RICS Valuation – Professional Standards, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation. There were no such instances in the year.

The external valuations for the London-based portfolio at December 2022 were carried out by Knight Frank LLP, whilst the December 2021 valuations were carried out by CBRE Limited.

Knight Frank valued properties at £5,285.6m (2021: £nil), CBRE at £nil (2021: £5,610.8m) and other valuers at £36.2m (2021: £35.5m), giving a combined value of £5,321.8m (2021: £5,646.3m). Of the properties revalued, £50.0m (2021: £49.3m) relating to owner-occupied property was included within property, plant and equipment and £44.2m (2021: £34.1m) was in relation to trading property.

The total fees, including the fee for this assignment, earned by Knight Frank (or other companies forming part of the same group of companies within the UK) from the Group is less than 5.0% of their total UK revenues.

As described in note 2, the prior year revaluation has been restated in accordance with the guidance provided by the IFRS Interpretations Committee.

Net zero carbon and EPC compliance

In response to climate change, the Group published its pathway to net zero carbon in July 2020 and has set 2030 as its target date to achieve this. In accordance with the Group's Green Finance Framework, £99.9m (year to 31 December 2021: £116.6m) of eligible 'green' expenditure was incurred in the year to 31 December 2022 on major developments at 80 Charlotte Street W1, Soho Place W1, The Featherstone Building EC1 and 25 Baker Street W1. As these have met the criteria to be eligible qualifying projects under the Framework, the Group has utilised the green tranche of the £450m revolving credit facility and the £350m green bonds (more information can be found on pages 106 to 107).

In 2021, the Group commissioned a third-party report to determine the costs of achieving EPC compliance across the portfolio by 2030. Results of the study indicated an estimated cost of c.£97m to upgrade the Group's properties to EPC 'B' or above. This has since been updated to reflect the latest scope change and 2022 cost inflation, taking the estimate to c.£107m at year end. This includes £8.0m relating to 19 Charterhouse Street EC1 which was sold in January 2023. It is expected that a small proportion of this cost will be recoverable through service charges. A specific deduction of £58.4m for identified EPC upgrade works across the portfolio has been included within the external valuation at 31 December 2022, with an additional allowance for further general upgrades to properties following assumed tenant vacancies. Any committed capital expenditure has been included in note 34.

Reconciliation of revaluation (deficit)/surplus

	2022 £m	2021 Restated £m
Total revaluation (deficit)/surplus	(401.8)	142.9
Less:		
Share of joint ventures	9.2	13.9
Lease incentives and costs	(23.2)	(19.4)
Assets held for sale selling costs	(2.5)	(2.0)
Trading property revaluation adjustment	(3.3)	(2.0)
IFRS revaluation (deficit)/surplus	(421.6)	133.4
Reported in the:		
Revaluation (deficit)/surplus	(422.1)	131.1
Write-down of trading property	(0.2)	(1.4)
Group income statement	(422.3)	129.7
Group statement of comprehensive income	0.7	3.7
	(421.6)	133.4

Valuation process

The valuation reports produced by the external valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment. In addition, the valuation reports are based on assumptions and valuation models used by the external valuers.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

16 PROPERTY PORTFOLIO continued

Valuation process continued

The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgement and market observation and take into account the impact of climate change and related Environmental, Social and Governance considerations. Each property is considered a separate asset class based on the unique nature, characteristics and risks of the property.

Members of the Group's investments team, who report to the executive Director responsible for the valuation process, verify all major inputs to the external valuation reports, assess the individual property valuation changes from the prior year valuation report and hold discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

Valuation techniques

The fair value of the property portfolio has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

For properties under construction, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

There were no transfers between Levels 1 and 2 or between Levels 2 and 3 in the fair value hierarchy during either 2022 or 2021.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a loss of £422.1m (2021 restated: gain of £131.1m) and are presented in the Group income statement in the line item 'revaluation (deficit)/surplus'. The revaluation surplus for the owner-occupied property of £0.7m (2021: surplus of £3.7m) was included within the Group statement of comprehensive income.

All gains and losses recorded in profit or loss in 2022 and 2021 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2022 and 31 December 2021, respectively.

Quantitative information about fair value measurement using unobservable inputs (Level 3)

Valuation technique	West End central	West End borders/other	City borders	Provincial commercial	Provincial land	Total
	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	
Fair value (£m) ¹	3,363.7	376.6	1,544.5	43.0	36.4	5,364.2
Area ('000 sq ft)	3,002	429	1,703	326	–	5,460
Range of unobservable inputs ² :						
Gross ERV (per sq ft pa)						
Minimum	£28	£23	£30	£nil	n/a ³	
Maximum	£100	£59	£69	£13	n/a ³	
Weighted average	£64	£52	£53	£13	n/a ³	
Net initial yield						
Minimum	2.8%	2.2%	2.3%	8.5%	0.0%	
Maximum	6.4%	6.1%	6.4%	8.5%	1.3%	
Weighted average	3.1%	5.3%	4.1%	8.5%	1.3%	
Reversionary yield						
Minimum	2.8%	4.1%	3.4%	6.8%	0.0%	
Maximum	7.1%	6.6%	6.3%	6.8%	1.3%	
Weighted average	4.9%	5.5%	5.4%	6.8%	1.3%	
True equivalent yield (EPRA basis)						
Minimum	2.8%	3.8%	4.1%	9.3%	0.0%	
Maximum	6.4%	5.7%	5.7%	9.3%	0.0%	
Weighted average	4.6%	5.4%	5.1%	9.3%	0.0%	

¹ Includes the Group's share of joint ventures.

² Costs to complete are not deemed a significant unobservable input by virtue of the high percentage that is already fixed.

³ There is no calculation of gross ERV per sq ft pa. The land totals 5,500 acres.

Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Reversionary yield	Decrease	Increase
True equivalent yield	Decrease	Increase

There are inter-relationships between these inputs as they are partially determined by market conditions. An increase in the reversionary yield may accompany an increase in gross ERV and would mitigate its impact on the fair value measurement.

A sensitivity analysis has been performed to ascertain the impact of a 25 basis point shift in true equivalent yield and a £2.50 per sq ft shift in ERV on the property valuations. The Group believes this captures the range of variations in these key valuation assumptions. The results are shown in the tables below:

	West End central	West End borders/other	City borders	Provincial commercial	Provincial land	Total
True equivalent yield						
+25bp	(5.2%)	(4.4%)	(4.7%)	(2.6%)	–	(4.9%)
-25bp	5.7%	4.9%	5.2%	2.8%	–	5.4%
ERV						
+£2.50 psf	3.9%	4.8%	4.7%	19.3%	–	4.4%
-£2.50 psf	(3.9%)	(4.8%)	(4.7%)	(19.3%)	–	(4.4%)

Historical cost

	2022 £m	2021 Restated £m
Investment property	3,478.3	3,362.3
Owner-occupied property	19.6	19.6
Assets held for sale	51.5	38.5
Trading property	42.5	44.0
Total property portfolio	3,591.9	3,464.4

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17 PROPERTY, PLANT AND EQUIPMENT

	Owner-occupied property £m	Right-of-use asset £m	Artwork £m	Other £m	Total £m
Group					
At 1 January 2022	49.3	–	0.8	3.9	54.0
Additions	–	–	–	0.6	0.6
Depreciation	–	–	–	(1.0)	(1.0)
Revaluation	0.7	–	–	–	0.7
At 31 December 2022	50.0	–	0.8	3.5	54.3
At 1 January 2021	45.6	–	1.0	3.6	50.2
Additions	–	–	–	1.3	1.3
Disposals	–	–	(0.1)	(0.1)	(0.2)
Depreciation	–	–	–	(0.9)	(0.9)
Revaluation	3.7	–	(0.1)	–	3.6
At 31 December 2021	49.3	–	0.8	3.9	54.0
Net book value					
Cost or valuation	50.0	–	0.8	7.8	58.6
Accumulated depreciation	–	–	–	(4.3)	(4.3)
At 31 December 2022	50.0	–	0.8	3.5	54.3
Net book value					
Cost or valuation	49.3	–	0.8	8.0	58.1
Accumulated depreciation	–	–	–	(4.1)	(4.1)
At 31 December 2021	49.3	–	0.8	3.9	54.0
Company					
At 1 January 2022	–	18.0	0.8	3.8	22.6
Additions	–	–	–	0.6	0.6
Depreciation	–	(1.2)	–	(1.0)	(2.2)
At 31 December 2022	–	16.8	0.8	3.4	21.0
At 1 January 2021	–	19.2	1.0	3.5	23.7
Additions	–	–	–	1.3	1.3
Disposals	–	–	(0.1)	(0.1)	(0.2)
Depreciation	–	(1.2)	–	(0.9)	(2.1)
Revaluation	–	–	(0.1)	–	(0.1)
At 31 December 2021	–	18.0	0.8	3.8	22.6
Net book value					
Cost or valuation	–	21.5	0.8	7.7	30.0
Accumulated depreciation	–	(4.7)	–	(4.3)	(9.0)
At 31 December 2022	–	16.8	0.8	3.4	21.0
Net book value					
Cost or valuation	–	21.6	0.8	8.0	30.4
Accumulated depreciation	–	(3.6)	–	(4.2)	(7.8)
At 31 December 2021	–	18.0	0.8	3.8	22.6

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in December 2021. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historical cost of the artwork in the Group at 31 December 2022 was £0.9m (2021: £0.9m) and £0.9m (2021: £0.9m) in the Company. See note 16 for the historical cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

18 TRADING STOCK

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Trading stock	2.3	0.4	–	–

Trading stock relates to capitalised development expenditure incurred which is due to be transferred under development agreements to a third party upon completion. This has been included in trading stock as the Group does not have an ownership interest in the property.

19 INVESTMENTS

Group

The Group has a 50% interest in four joint venture vehicles, Derwent Lazari Baker Street Limited Partnership, Dorrington Derwent Holdings Limited, Primister Limited and Prescott Street Limited Partnership.

	2022 £m	2021 £m
At 1 January	51.1	0.9
Additions	0.1	64.1
Joint venture acquisition costs	–	(4.0)
Revaluation deficit	(9.3)	(10.2)
Other profit from operations	2.0	0.3
At 31 December	43.9	51.1

The Group's share of its investments in joint ventures is represented by the following amounts in the underlying joint venture entities.

	2022		2021	
	Joint ventures £m	Group share £m	Joint ventures £m	Group share £m
Non-current assets	85.0	42.5	100.5	50.2
Current assets	5.0	2.5	3.7	1.9
Current liabilities	(2.7)	(1.4)	(2.7)	(1.3)
Non-current liabilities	(121.0)	(60.5)	(120.8)	(60.4)
Net liabilities	(33.7)	(16.9)	(19.3)	(9.6)
Loans provided to joint ventures		60.8		60.7
Total investment in joint ventures		43.9		51.1
Net property income	4.2	2.1	0.7	0.4
Administrative expenses	(0.3)	(0.1)	(0.1)	(0.1)
Revaluation deficit	(18.5)	(9.3)	(20.4)	(10.2)
Loss for the year	(14.6)	(7.3)	(19.8)	(9.9)

Company

	Subsidiaries £m
At 1 January 2021	1,615.9
Additions	268.0
Disposals	(80.7)
Repayment of capital	(33.5)
Impairment	(19.9)
At 31 December 2021	1,749.8
Additions	605.0
Reversal of impairment	3.9
Impairment	(134.0)
At 31 December 2022	2,224.7

NOTES TO THE FINANCIAL STATEMENTS continued

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19 INVESTMENTS continued

At 31 December 2022, the carrying values of the investment in wholly owned subsidiaries were reviewed in accordance with IAS 36 Impairment of Assets on both a 'value in use' and 'fair value less costs to sell' basis. The Company's accounting policy is to carry investments in subsidiary undertakings at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the income statement. As a result, the Company recognised a net impairment charge of £130.1m (2021: £19.9m). This was due to property revaluation deficits charged to the income statement in a number of the property investment subsidiaries held directly or indirectly by the Company. Investment properties are held by the property investment subsidiaries with any surpluses or deficits resulting from a change in their fair values being reported in the income statement of those subsidiaries, thereby affecting their fair values. The Group uses the valuation carried out by external valuers as the fair value of its property portfolio, see note 3 for further details.

20 OTHER RECEIVABLES (NON-CURRENT)

	Group		Company	
	2022 £m	2021 Restated £m	2022 £m	2021 £m
Rents recognised in advance	165.2	147.0	–	–
Initial direct letting costs	13.8	12.3	–	–
Prepayments	9.1	–	–	–
Prepayments and accrued income	188.1	159.3	–	–

Prepayments and accrued income include £165.2m (2021: £147.0m) after impairments (see note 3) relating to rents recognised in advance as a result of spreading tenant lease incentives over the expected terms of their respective leases. This includes rent-free and reduced rent periods, capital contributions in lieu of rent-free periods and contracted rent uplifts. In addition, £13.8m (2021: £12.3m) relates to the spreading effect of the initial direct costs of letting over the same term. Together with £26.1m (2021 restated: £22.8m), which was included as accrued income within trade and other receivables (see note 21), these amounts totalled £205.1m at 31 December 2022 (2021 restated: £182.1m).

Prepayments represent £9.1m of costs incurred in relation to Old Street Quarter EC1. In May 2022, the Group entered into a conditional contract to acquire the freehold of Old Street Quarter island site. The site is being sold by Moorfields Eye Hospital NHS Foundation Trust and UCL, together the Oriel joint initiative ('Oriel'). Completion is subject to Oriel's receipt of final Treasury approval (subsequently received in February 2023), delivery by Oriel of a new hospital at St Pancras and subsequent vacant possession of the site, which is anticipated in 2027.

The total movement in tenant lease incentives is shown below:

	2022 £m	2021 Restated £m
At 1 January	167.0	148.5
Amounts taken to income statement	20.4	19.9
Capital incentives granted	0.6	0.7
Lease incentive reversal/(impairment)	1.0	(0.1)
Adjustment for non-current asset held for sale	–	(1.3)
Disposal of investment properties	–	(0.5)
Write off to bad debt	(0.2)	(0.2)
	188.8	167.0
Amounts included in trade and other receivables (see note 21)	(23.6)	(20.0)
At 31 December	165.2	147.0

21 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2022 £m	2021 Restated £m	2022 £m	2021 £m
Trade receivables	4.9	6.9	–	–
Amounts owed by subsidiaries	–	–	1,759.2	1,860.7
Other receivables	5.8	3.7	4.2	15.2
Prepayments	3.8	5.3	24.6	23.0
Accrued income	27.9	25.1	–	–
	42.4	41.0	1,788.0	1,898.9

The prior year prepayments have been restated to reclassify £19.4m of cash collected on behalf of tenants' service charges within cash and cash equivalents. For further information refer to note 2.

The prior year accrued income has been restated by £1.3m in relation to amounts forgiven for receivables past their due date as a result of the IFRIC decision relating to forgiveness of lease payments. For further information refer to note 2.

	2022 £m	2021 £m
Group trade receivables are split as follows:		
less than three months due	4.9	6.8
between three and six months due	–	0.1
	4.9	6.9

Group trade receivables as at 31 December 2022 are stated net of impairment. As a result, the expected credit loss assessment under IFRS 9 (see note 3) was lower than in 2021.

Amounts owed by subsidiaries are unsecured, have no fixed date of repayment and are repayable on demand. These balances have been considered as part of the full expected credit loss assessment under IFRS 9 and no impairments were determined to be required (2021: £nil).

Other receivables in the Company as at 31 December 2021 includes a £19.7m (2021: £12.3m) interest free loan with no fixed repayment date provided to a subsidiary for the development of the residential element at 25 Baker Street W1. The loan will be repaid from the sale proceeds of these residential apartments after the completion of the scheme.

In response to the Group's climate change agenda, costs of £0.7m (2021: £0.4m) were incurred in relation to a c.100 acre, 18.4MW solar park on its Scottish land and have been included within prepayments. Resolution to grant planning consent for this project was received in 2022.

The Group has £5.0m of provision for bad debts as shown below. £1.9m is included in trade receivables, £0.7m in accrued income and £2.4m in prepayments and accrued income within other receivables (non-current) (note 20).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

21 TRADE AND OTHER RECEIVABLES continued

	2022 £m	2021 Restated £m
Provision for bad debts		
At 1 January	8.3	8.4
Trade receivables provision	(0.8)	(0.4)
Lease incentive provision	(0.2)	0.8
Service charge provision	(0.2)	0.1
Released	(2.1)	(0.6)
At 31 December	5.0	8.3
The provision for bad debts are split as follows:		
less than three months due	2.2	3.7
between three and six months due	0.1	0.2
between six and twelve months due	0.3	0.3
over twelve months due	2.4	4.1
	5.0	8.3

22 NON-CURRENT ASSETS HELD FOR SALE

	2022 £m	2021 £m
Transferred from investment properties (see note 16)	54.2	101.2
Transferred from prepayments and accrued income	–	1.6
	54.2	102.8

In January 2023, the Group exchanged contracts and completed on the sale of its freehold interest in 19 Charterhouse Street EC1. The property was valued at £53.0m as at 31 December 2022. In accordance with IFRS 5 Non-current Assets Held for Sale, this property was recognised as a non-current asset held for sale and, after deducting selling costs of £0.5m, the carrying value was £52.5m (see note 16).

At 31 December 2022, the freehold interest in 13 Charlotte Mews W1 was recognised as a non-current asset held for sale, in accordance with IFRS 5 Non-current Assets Held for Sale. 13 Charlotte Mews is under offer and is available for sale in its present condition. As at 31 December 2022, the property was valued at £1.7m and, after deducting selling costs of £0.05m, the carrying value was £1.65m (see note 16).

23 TRADE AND OTHER PAYABLES

	Group		Company	
	2022 £m	2021 Restated £m	2022 £m	2021 Restated £m
Trade payables	0.4	3.2	–	0.1
Amounts owed to subsidiaries	–	–	1,685.3	1,285.3
Other payables	24.6	38.0	0.3	1.2
Other taxes	11.8	8.0	4.8	1.7
Accruals	35.8	37.2	16.4	15.1
Deferred income	48.2	41.9	0.7	0.7
Tenant rent deposits	27.3	17.6	–	–
	148.1	145.9	1,707.5	1,304.1

Deferred income primarily relates to rents received in advance.

Prior year Group trade and other payables have been restated to reflect the grossing up of tenant rent deposits of £17.6m.

Prior year Company trade and other payables ('amounts owed to subsidiaries') have been restated to reflect the grossing up of £17.6m of tenant rent deposits and £4.8m of cash collected on behalf of tenants to fund the service charge of properties in the portfolio. For further information refer to note 2.

24 PROVISIONS

	Group £m	Company £m
At 1 January 2022	0.6	0.6
Provided in the income statement	(0.2)	(0.2)
Utilised in year	(0.2)	(0.2)
At 31 December 2022	0.2	0.2
Due within one year	–	–
Due after one year	0.2	0.2
	0.2	0.2
At 1 January 2021	1.0	1.0
Provided in the income statement	0.6	0.6
Utilised in year	(1.0)	(1.0)
At 31 December 2021	0.6	0.6
Due within one year	0.3	0.3
Due after one year	0.3	0.3
	0.6	0.6

The provisions in both the Group and the Company relate to national insurance that is payable on gains made by employees on the exercise of share options granted to them. The eventual liability to national insurance is dependent on:

- the market price of the Company's shares at the date of exercise;
- the number of equity share options that are exercised; and
- the prevailing rate of national insurance at the date of exercise.

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for the year ended 31 December 2022

25 NET DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Current liabilities				
Other loans	19.7	12.3	–	–
	19.7	12.3	–	–
Non-current liabilities				
1.5% unsecured convertible bonds 2025	170.1	168.3	–	–
6.5% secured bonds 2026	181.0	182.4	–	–
1.875% unsecured green bonds 2031	346.4	346.0	346.4	346.0
2.68% unsecured private placement notes 2026	54.9	54.8	54.9	54.8
3.46% unsecured private placement notes 2028	29.9	29.9	29.9	29.9
4.41% unsecured private placement notes 2029	24.9	24.9	24.9	24.9
2.87% unsecured private placement notes 2029	92.7	92.6	92.7	92.6
2.97% unsecured private placement notes 2031	49.8	49.8	49.8	49.8
3.57% unsecured private placement notes 2031	74.7	74.7	74.7	74.7
3.09% unsecured private placement notes 2034	51.8	51.8	51.8	51.8
4.68% unsecured private placement notes 2034	74.6	74.5	74.6	74.5
3.99% secured loan 2024	82.7	82.5	82.7	82.5
Unsecured bank loans	(4.1)	4.9	(4.1)	4.9
Intercompany loan	–	–	170.1	168.3
	1,229.4	1,237.1	1,048.4	1,054.7
Borrowings	1,249.1	1,249.4	1,048.4	1,054.7
Leasehold liabilities – current	0.5	51.2	1.3	1.2
Leasehold liabilities – non-current	34.5	19.4	21.6	22.9
Derivative financial instruments – current	–	0.4	–	0.4
Derivative financial instruments – non-current	(5.0)	0.4	(5.0)	0.4
Gross debt	1,279.1	1,320.8	1,066.3	1,079.6
Reconciliation to net debt:				
Gross debt	1,279.1	1,320.8	1,066.3	1,079.6
Derivative financial instruments	5.0	(0.8)	5.0	(0.8)
Cash at bank excluding restricted cash (see note 33)	(26.9)	(68.5)	(26.4)	(68.2)
Net debt	1,257.2	1,251.5	1,044.9	1,010.6

1.5% unsecured convertible bonds 2025

In June 2019 the Group issued £175m of convertible bonds. The unsecured instruments pay a coupon of 1.5% until June 2025 or the conversion date, if earlier. The initial conversion price was set at £44.96 per share. In accordance with IAS 32, the equity and debt components of the bonds are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond, deemed to be 2.3%. As a result, £167.3m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £7.7m, which represents the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is being amortised through the income statement from the date of issue. Issue costs of £4.0m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bonds. The issue costs apportioned to equity of £0.2m were not amortised. The fair value was determined by the ask-price of £91.75 per £100 as at 31 December 2022 (2021: £102.00 per £100). The carrying value at 31 December 2022 was £170.1m (2021: £168.3m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(7.7)
Debt component on issue	167.3
Unamortised issue costs	(1.5)
Amortisation of fair value adjustment	4.3
Carrying amount included in borrowings	170.1

6.5% secured bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the secured bonds 2026 were included at fair value less unamortised issue costs. This difference between fair value at acquisition and principal value is being amortised through the income statement. The fair value at 31 December 2022 was determined by the ask-price of £102.67 per £100 (2021: £117.60 per £100). The carrying value at 31 December 2022 was £181.0m (2021: £182.4m).

1.875% unsecured green bonds 2031

In November 2021, the Group issued £350m of green bonds on a 10-year term maturing in 2031. The unsecured instrument pays a coupon of 1.875% and the effective interest rate is 1.934%. This represents an issue discount of £1.8m. The unsecured green bonds 2031 are accounted for at amortised cost. The fair value at 31 December 2022 was determined by the ask-price of £70.63 per £100 (2021: £98.45 per £100). The carrying value at 31 December 2022 was £346.4m (2021: £346.0m). The £350m green bonds will be used to fund qualifying 'green' expenditure in accordance with the Group's Green Finance Framework.

2.68% unsecured private placement notes 2026, 2.87% unsecured private placement notes 2029, 2.97% unsecured private placement notes 2031 and 3.09% unsecured private placement notes 2034

In October 2018, the Group arranged unsecured private placement notes, comprising £55m for 7 years, £93m for 10 years, £50m for 12 years and £52m for 15 years. The funds were drawn on 31 January 2019. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of reference gilts plus implied margins. The references were a 2% 2025 gilt, 1.625% 2028 gilt, 4.75% 2030 gilt and a 4.25% 2032 gilt all with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2022 were £54.9m (2021: £54.8m), £92.7m (2021: £92.6m), £49.8m (2021: £49.8m) and £51.8m (2021: £51.8m), respectively.

3.46% unsecured private placement notes 2028 and 3.57% unsecured private placement notes 2031

In February 2016, the Group arranged unsecured private placement notes, comprising £30m for 12 years and £75m for 15 years. The funds were drawn on 4 May 2016. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of reference gilts plus implied margins. The references were a 6% 2028 gilt and a 4.75% 2030 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2022 were £29.9m (2021: £29.9m) and £74.7m (2021: £74.7m), respectively.

4.41% unsecured private placement notes 2029 and 4.68% unsecured private placement notes 2034

In November 2013, the Group arranged unsecured private placement notes, comprising £25m for 15 years and £75m for 20 years. The funds were drawn on 8 January 2014. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of reference gilts plus implied margins. The references were a 6% 2028 gilt and a 4.25% 2032 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2022 were £24.9m (2021: £24.9m) and £74.6m (2021: £74.5m), respectively.

3.99% secured loan 2024

In July 2012, the Group arranged a 12¼-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value was determined by comparing the discounted future cash flows using the contracted yield with those of the reference gilt plus an implied margin. The reference was a 5% 2025 gilt with an implied margin which is unchanged since the date of fixing. The carrying value at 31 December 2022 was £82.7m (2021: £82.5m).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

25 NET DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS continued

Unsecured bank loans

In 2021, the Group exercised the one-year extension option on both the £100m revolving credit facility ('RCF') and the £450m RCF, thereby extending the maturities of both facilities out to 2026. In 2022, the Group exercised a further one-year extension option on the £100m facility, thereby extending the maturity of the facility out to 2027.

Unsecured bank borrowings are accounted for at amortised cost. At 31 December 2022, there was £nil (2021: £10.0m) drawn on the RCFs and the unamortised arrangement fees were £4.1m (2021: £5.1m), resulting in the carrying value being a £4.1m debit balance (2021: credit balance of £4.9m).

The main corporate £450m RCF includes a £300m 'green tranche' to fund qualifying 'green' expenditure in accordance with the Group's Green Finance Framework.

As all main corporate facilities were refinanced or amended recently, the fair values of the Group's bank loans are deemed to be approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees.

In 2021, the benchmark rate applicable on the existing bank borrowings was transitioned from LIBOR to SONIA.

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2022	–	–	–	450.0	100.0	–	550.0
At 31 December 2021	–	–	–	–	540.0	–	540.0
Company							
At 31 December 2022	–	–	–	450.0	100.0	–	550.0
At 31 December 2021	–	–	–	–	540.0	–	540.0

Other loans

Other loans consist of a £19.7m interest-free loan with no fixed repayment date from a third party providing development consultancy services on the residential element of the 25 Baker Street W1 development. The loan will be repaid from the sale proceeds of these residential apartments after completion of the scheme. The agreement provides for a profit share on completion of the sales which, under IFRS 9 Financial Instruments, has been deemed to have a carrying value of £nil at 31 December 2022 (2021: £nil). The carrying value of the loan at 31 December 2022 was £19.7m (2021: £12.3m).

Intercompany loans

The terms of the intercompany loan in the Company mirror those of the unsecured convertible bonds 2025. As with the convertible bonds, debt and equity components of the intercompany loan have been accounted for separately, and the fair value of the debt components is identical to that of the bonds. The carrying value of this loan at 31 December 2022 was £170.1m (2021: £168.3m).

Derivative financial instruments

The derivative financial instruments consist of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2022 for the period to the contracted expiry dates.

During the prior year, all interest rate swaps were transitioned from LIBOR basis swaps to SONIA.

The Group has a £75m forward starting interest rate swap effective from 4 January 2023. This swap is not included in the 31 December 2022 figures in the table below. The Group also had a £40m forward starting interest rate swap which was terminated during 2022.

The fair values of the Group's outstanding interest rate swaps have been estimated using the mid-point of the yield curves prevailing on the reporting date and represent the net present value of the differences between the contracted rate and the valuation rate when applied to the projected balances for the period from the reporting date to the contracted expiry dates.

Secured and unsecured debt

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Secured				
6.5% secured bonds 2026	181.0	182.4	–	–
3.99% secured loan 2024	82.7	82.5	82.7	82.5
	263.7	264.9	82.7	82.5
Unsecured				
1.5% unsecured convertible bonds 2025	170.1	168.3	–	–
1.875% unsecured green bonds 2031	346.4	346.0	346.4	346.0
Unsecured private placement notes 2026 – 2034	453.3	453.0	453.3	453.0
Unsecured bank loans	(4.1)	4.9	(4.1)	4.9
Other loans	19.7	12.3	–	–
Intercompany loan	–	–	170.1	168.3
	985.4	984.5	965.7	972.2
Borrowings	1,249.1	1,249.4	1,048.4	1,054.7

As at 31 December 2022, the Group's secured bonds 2026 were secured by a floating charge over a number of the Group's subsidiary companies which contained £448.8m (2021: £571.8m) of the Group's properties. The Group's secured bank loan was settled during the previous year in advance of the acquisition of the non-controlling interest from The Portman Estate in 2021.

At 31 December 2022, the Company's 3.99% secured loan 2024 was secured by a fixed charge over £272.8m (2021: £305.2m) of the Group's properties.

Fixed interest rate and hedged debt

At 31 December 2022, the Group's fixed rate and hedged debt included the unsecured convertible bonds, the unsecured green bonds, the secured bonds, a secured loan, the unsecured private placement notes and other loans. At 31 December 2021, the Group's fixed rate and hedged debt included the unsecured convertible bonds, the unsecured green bonds, the secured bonds, a secured loan, the unsecured private placement notes and other loans.

At 31 December 2022, the Company's fixed rate and hedged debt included the unsecured green bonds, a secured loan, the unsecured private placement notes and the intercompany loans. At 31 December 2021, the Company's fixed rate and hedged debt included the unsecured green bonds, a secured loan, the unsecured private placement notes and the intercompany loans.

NOTES TO THE FINANCIAL STATEMENTS continued

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25 NET DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS continued

Interest rate exposure

After taking into account the various interest rate hedging instruments entered into by the Group and the Company, the interest rate exposure of the Group's and Company's borrowings were:

	Floating rate £m	Hedged £m	Fixed rate £m	Borrowings £m	Weighted average interest rate ¹ %	Weighted average life Years
Group						
At 31 December 2022						
1.5% unsecured convertible bonds 2025	–	–	170.1	170.1	2.30	2.4
6.5% secured bonds 2026	–	–	181.0	181.0	6.50	3.2
1.875% unsecured green bonds 2031	–	–	346.4	346.4	1.93	8.9
Unsecured private placement notes 2026 – 2034	–	–	453.3	453.3	3.42	7.7
3.99% secured loan 2024	–	–	82.7	82.7	3.99	1.8
Unsecured bank loans	(4.1)	–	–	(4.1)	–	–
Other loans ²	–	–	19.7	19.7	–	–
	(4.1)	–	1,253.2	1,249.1	3.26	6.2
At 31 December 2021						
1.5% unsecured convertible bonds 2025	–	–	168.3	168.3	2.30	3.4
6.5% secured bonds 2026	–	–	182.4	182.4	6.50	4.2
1.875% unsecured green bonds 2031	–	–	346.0	346.0	1.93	9.9
Unsecured private placement notes 2026 – 2034	–	–	453.0	453.0	3.42	8.7
3.99% secured loan 2024	–	–	82.5	82.5	3.99	2.8
Unsecured bank loans	4.9	–	–	4.9	1.25	4.8
Other loans	–	–	12.3	12.3	–	–
	4.9	–	1,244.5	1,249.4	3.27	7.2
Company						
At 31 December 2022						
1.875% unsecured green bonds 2031	–	–	346.4	346.4	1.93	8.9
Unsecured private placement notes 2026 – 2034	–	–	453.3	453.3	3.42	7.7
3.99% secured loan 2024	–	–	82.7	82.7	3.99	1.8
Unsecured bank loans	(4.1)	–	–	(4.1)	–	–
Intercompany loan	–	–	170.1	170.1	2.30	2.4
	(4.1)	–	1,052.5	1,048.4	2.78	6.7
At 31 December 2021						
1.875% unsecured green bonds 2031	–	–	346.0	346.0	1.93	9.9
Unsecured private placement notes 2026 – 2034	–	–	453.0	453.0	3.42	8.7
3.99% secured loan 2024	–	–	82.5	82.5	3.99	2.8
Unsecured bank loans	4.9	–	–	4.9	1.25	4.8
Intercompany loan	–	–	168.3	168.3	2.30	3.4
	4.9	–	1,049.8	1,054.7	2.78	7.7

¹ The weighted average interest rates are based on the nominal amounts of the debt facilities.

² Other loans shown above are interest free and have no fixed repayment date. For further detail, see other loans section above.

Contractual undiscounted cash outflows

IFRS 7 Financial Instruments: Disclosure, requires disclosure of the maturity of the Group's and Company's remaining contractual financial liabilities. The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2022							
1.5% unsecured convertible bonds 2025	-	-	175.0	-	-	-	175.0
6.5% secured bonds 2026	-	-	-	175.0	-	-	175.0
1.875% unsecured green bonds 2031	-	-	-	-	-	350.0	350.0
Unsecured private placement notes 2026 – 2034	-	-	-	55.0	-	400.0	455.0
3.99% secured loan 2024	-	83.0	-	-	-	-	83.0
Other loans	-	-	19.7	-	-	-	19.7
Total on maturity	-	83.0	194.7	230.0	-	750.0	1,257.7
Leasehold liabilities	1.8	1.7	1.7	1.7	1.8	211.3	220.0
Interest on borrowings	39.4	38.8	34.8	27.1	20.7	80.3	241.1
Effect of interest rate swaps	(1.8)	(2.4)	(1.1)	-	-	-	(5.3)
Gross loan commitments	39.4	121.1	230.1	258.8	22.5	1,041.6	1,713.5
At 31 December 2021							
1.5% unsecured convertible bonds 2025	-	-	-	175.0	-	-	175.0
6.5% secured bonds 2026	-	-	-	-	175.0	-	175.0
1.875% unsecured green bonds 2031	-	-	-	-	-	350.0	350.0
Unsecured private placement notes 2026 – 2034	-	-	-	-	55.0	400.0	455.0
3.99% secured loan 2024	-	-	83.0	-	-	-	83.0
Unsecured bank loans	-	-	-	-	10.0	-	10.0
Other loans	-	-	-	12.3	-	-	12.3
Total on maturity	-	-	83.0	187.3	240.0	750.0	1,260.3
Leasehold liabilities	52.2	0.8	0.8	0.8	0.8	193.7	249.1
Interest on borrowings	39.5	39.6	39.6	34.9	27.2	100.9	281.7
Effect of interest rate swaps	0.8	-	-	-	-	-	0.8
Gross loan commitments	92.5	40.4	123.4	223.0	268.0	1,044.6	1,791.9

NOTES TO THE FINANCIAL STATEMENTS continued

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25 NET DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS continued

Reconciliation to borrowings:

	Adjustments					Borrowings £m			
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m				
Group									
At 31 December 2022									
Maturing in:									
< 1 year	39.4	(39.4)	1.8	(1.8)	-	-			
1 to 2 years	121.1	(38.8)	2.4	(1.7)	(0.3)	82.7			
2 to 3 years	230.1	(34.8)	1.1	(1.7)	(4.9)	189.8			
3 to 4 years	258.8	(27.1)	-	(1.7)	2.5	232.5			
4 to 5 years	22.5	(20.7)	-	(1.8)	(0.7)	(0.7)			
> 5 years	1,041.6	(80.3)	-	(211.3)	(5.2)	744.8			
	1,713.5	(241.1)	5.3	(220.0)	(8.6)	1,249.1			
At 31 December 2021									
Maturing in:									
< 1 year	92.5	(39.5)	(0.8)	(52.2)	-	-			
1 to 2 years	40.4	(39.6)	-	(0.8)	-	-			
2 to 3 years	123.4	(39.6)	-	(0.8)	(0.5)	82.5			
3 to 4 years	223.0	(34.9)	-	(0.8)	(6.7)	180.6			
4 to 5 years	268.0	(27.2)	-	(0.8)	2.1	242.1			
> 5 years	1,044.6	(100.9)	-	(193.7)	(5.8)	744.2			
	1,791.9	(281.7)	(0.8)	(249.1)	(10.9)	1,249.4			
			< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company									
At 31 December 2022									
1.875% unsecured green bonds 2031	-	-	-	-	-	-	350.0	350.0	
Unsecured private placement notes 2026 – 2034	-	-	-	-	55.0	-	400.0	455.0	
3.99% secured loan 2024	-	83.0	-	-	-	-	-	83.0	
Intercompany loan	-	-	175.0	-	-	-	-	175.0	
Total on maturity	-	83.0	175.0	55.0	-	-	750.0	1,063.0	
Leasehold liability	2.1	2.1	2.1	2.1	2.1	2.1	18.9	29.4	
Interest on debt	28.1	27.4	23.4	21.4	20.7	20.7	80.3	201.3	
Effect of interest rate swaps	(1.8)	(2.4)	(1.1)	-	-	-	-	(5.3)	
Gross loan commitments	28.4	110.1	199.4	78.5	22.8	849.2	1,288.4		
At 31 December 2021									
1.875% unsecured green bonds 2031	-	-	-	-	-	-	350.0	350.0	
Unsecured private placement notes 2026 – 2034	-	-	-	-	55.0	-	400.0	455.0	
3.99% secured loan 2024	-	-	83.0	-	-	-	-	83.0	
Unsecured bank loans	-	-	-	-	10.0	-	-	10.0	
Intercompany loan	-	-	-	175.0	-	-	-	175.0	
Total on maturity	-	-	83.0	175.0	65.0	-	750.0	1,073.0	
Leasehold liability	2.1	2.1	2.1	2.1	2.1	2.1	21.0	31.5	
Interest on debt	28.2	28.2	28.2	23.6	21.5	21.5	100.9	230.6	
Effect of interest rate swaps	0.8	-	-	-	-	-	-	0.8	
Gross loan commitments	31.1	30.3	113.3	200.7	88.6	871.9	1,335.9		

Reconciliation to borrowings:

	Adjustments					Borrowings £m
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	
Company						
At 31 December 2022						
Maturing in:						
< 1 year	28.4	(28.1)	1.8	(2.1)	–	–
1 to 2 years	110.1	(27.4)	2.4	(2.1)	(0.3)	82.7
2 to 3 years	199.4	(23.4)	1.1	(2.1)	(4.9)	170.1
3 to 4 years	78.5	(21.4)	–	(2.1)	(3.5)	51.5
4 to 5 years	22.8	(20.7)	–	(2.1)	(0.7)	(0.7)
> 5 years	849.2	(80.3)	–	(18.9)	(5.2)	744.8
	1,288.4	(201.3)	5.3	(29.4)	(14.6)	1,048.4
At 31 December 2021						
Maturing in:						
< 1 year	31.1	(28.2)	(0.8)	(2.1)	–	–
1 to 2 years	30.3	(28.2)	–	(2.1)	–	–
2 to 3 years	113.3	(28.2)	–	(2.1)	(0.5)	82.5
3 to 4 years	200.7	(23.6)	–	(2.1)	(6.7)	168.3
4 to 5 years	88.6	(21.5)	–	(2.1)	(5.3)	59.7
> 5 years	871.9	(100.9)	–	(21.0)	(5.8)	744.2
	1,335.9	(230.6)	(0.8)	(31.5)	(18.3)	1,054.7

Derivative financial instruments cash flows

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2022 Receivable £m	2022 Payable £m	2021 Receivable £m	2021 Payable £m
Group				
Maturing in:				
< 1 year	2.5	(0.7)	0.7	(1.5)
1 to 2 years	3.4	(1.0)	1.0	(1.0)
2 to 3 years	1.6	(0.5)	1.0	(1.0)
3 to 4 years	–	–	0.5	(0.5)
4 to 5 years	–	–	–	–
> 5 years	–	–	–	–
Gross contractual cash flows	7.5	(2.2)	3.2	(4.0)
Company				
Maturing in:				
< 1 year	2.5	(0.7)	0.7	(1.5)
1 to 2 years	3.4	(1.0)	1.0	(1.0)
2 to 3 years	1.6	(0.5)	1.0	(1.0)
3 to 4 years	–	–	0.5	(0.5)
4 to 5 years	–	–	–	–
> 5 years	–	–	–	–
Gross contractual cash flows	7.5	(2.2)	3.2	(4.0)

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25 NET DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS continued

Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- credit risk;
- market risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 112 to 125.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years. The Group's EPRA loan-to-value ratio has increased to 23.9% as at 31 December 2022.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, accrued income arising from the spreading of lease incentives, cash at bank, trade and other payables, floating rate bank loans, fixed rate loans and private placement notes, secured and unsecured bonds and interest rate swaps.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to executive management for designing and operating processes that ensure the effective implementation of the objectives and policies.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility and its ability to maximise returns. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from lease contracts in relation to its property portfolio. It is Group policy to assess the credit risk of new tenants before entering into such contracts. The Board has a Credit Committee which assesses each new tenant before a new lease is signed. The review includes the latest sets of financial statements, external ratings when available and, in some cases, forecast information and bank or trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained. The Committee also reviews existing tenant covenants from time to time.

Impairment calculations have been carried out on trade receivables and accrued income arising as a result of the spreading of lease incentives using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. In addition, the Credit Committee has reviewed its register of tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA and the top 64 tenants by size with the remaining occupiers considered on a sector by sector basis.

As the Group operates predominantly in central London, it is subject to some geographical risk. However, this is mitigated by the wide range of tenants from a broad spectrum of business sectors.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk arises for the Group from its use of variable interest bearing instruments (interest rate risk).

The Group monitors its interest rate exposure on at least a quarterly basis. Sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates would result in no increase (2021: £0.1m) or decrease (2021: £0.1m), as all borrowings at the end of the year were fixed.

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2022, the proportion of fixed debt held by the Group was above this range at 100% (2021: 99%). During both 2022 and 2021, the Group's borrowings at variable rate were denominated in sterling.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. When the Group raises long-term borrowings, it is generally at fixed rates.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient headroom in its loan facilities to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain committed facilities to meet the expected requirements. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. This is further explained in the 'market risk' section above.

Executive management receives rolling three-year projections of cash flow and loan balances on a regular basis as part of the Group's forecasting processes. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The Group's loan facilities and other borrowings are spread across a range of banks and financial institutions so as to minimise any potential concentration of risk. The liquidity risk of the Group is managed centrally by the finance department.

Capital disclosures

The Group's capital comprises all components of equity (share capital, share premium, other reserves and retained earnings).

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern so that it can continue to provide above average long-term returns for shareholders; and
- to provide an above average annualised total return to shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and loan-to-value ratio. During 2022, the Group's strategy, which was unchanged from 2021, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the net interest cover ratio, are defined in the list of definitions on page 313 and are derived in note 42.

The Group is also required to ensure that it has sufficient property assets which are not subject to fixed or floating charges or other encumbrances. Most of the Group's debt is unsecured and, accordingly, there was £4.6bn (2021: £4.8bn) of uncharged property as at 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

26 FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUES

Categories of financial assets and liabilities

	Fair value through profit and loss £m	Financial assets held at amortised cost £m	Financial liabilities held at amortised cost £m	Total carrying value £m
Group				
Financial assets				
Cash and cash equivalents	–	76.6	–	76.6
Other assets – current ¹	–	12.5	–	12.5
	–	89.1	–	89.1
Financial liabilities				
1.5% unsecured convertible bonds 2025	–	–	(170.1)	(170.1)
6.5% secured bonds 2026	–	–	(181.0)	(181.0)
1.875% unsecured green bonds 2031	–	–	(346.4)	(346.4)
Unsecured private placement notes 2026 – 2034	–	–	(453.3)	(453.3)
3.99% secured loan 2024	–	–	(82.7)	(82.7)
Bank borrowings due after one year	–	–	4.1	4.1
Other loans	–	–	(19.7)	(19.7)
Leasehold liabilities	–	–	(35.0)	(35.0)
Derivative financial instruments	5.0	–	–	5.0
Other liabilities – current ²	–	–	(60.8)	(60.8)
	5.0	–	(1,344.9)	(1,339.9)
At 31 December 2022	5.0	89.1	(1,344.9)	(1,250.8)
Financial assets				
Cash and cash equivalents (restated)	–	105.5	–	105.5
Other assets – current ¹	–	13.1	–	13.1
	–	118.6	–	118.6
Financial liabilities				
1.5% unsecured convertible bonds 2025	–	–	(168.3)	(168.3)
6.5% secured bonds 2026	–	–	(182.4)	(182.4)
1.875% unsecured green bonds 2031	–	–	(346.0)	(346.0)
Unsecured private placement notes 2026 – 2034	–	–	(453.0)	(453.0)
3.99% secured loan 2024	–	–	(82.5)	(82.5)
Bank borrowings due after one year	–	–	(4.9)	(4.9)
Other loans	–	–	(12.3)	(12.3)
Leasehold liabilities	–	–	(70.6)	(70.6)
Derivative financial instruments	(0.8)	–	–	(0.8)
Other liabilities – current ²	–	–	(78.4)	(78.4)
	(0.8)	–	(1,398.4)	(1,399.2)
At 31 December 2021	(0.8)	118.6	(1,398.4)	(1,280.6)

1 In 2022, other assets includes all amounts shown as trade and other receivables in note 21 except lease incentives and costs; sales and social security taxes; and prepayments of £29.9m (2021 restated: £27.9m) for the Group. All amounts are non-interest bearing and are receivable within one year.

2 In 2022, other liabilities include all amounts shown as trade and other payables in note 23 except deferred income and sales and social security taxes of £60.0m (2021: £49.9m) for the Group. All amounts are non-interest bearing and are due within one year.

	Fair value through profit and loss £m	Financial assets held at amortised cost £m	Financial liabilities held at amortised cost £m	Total carrying value £m
Company				
Financial assets				
Cash and cash equivalents	–	67.3	–	67.3
Other assets – current ¹	–	1,763.4	–	1,763.4
	–	1,830.7	–	1,830.7
Financial liabilities				
1.875% unsecured green bonds 2031	–	–	(346.4)	(346.4)
Unsecured private placement notes 2026 – 2034	–	–	(453.3)	(453.3)
3.99% secured loan 2024	–	–	(82.7)	(82.7)
Bank borrowings due after one year	–	–	4.1	4.1
Intercompany loan	–	–	(170.1)	(170.1)
Leasehold liabilities	–	–	(22.9)	(22.9)
Derivative financial instruments	5.0	–	–	5.0
Other liabilities – current ²	–	(1,685.3)	(16.7)	(1,702.0)
	5.0	(1,685.3)	(1,088.0)	(2,768.3)
At 31 December 2022	5.0	145.4	(1,088.0)	(937.6)
Financial assets				
Cash and cash equivalents (restated)	–	90.6	–	90.6
Other assets – current ¹	–	1,875.9	–	1,875.9
	–	1,966.5	–	1,966.5
Financial liabilities				
1.875% unsecured green bonds 2031	–	–	(346.0)	(346.0)
Unsecured private placement notes 2026 – 2034	–	–	(453.0)	(453.0)
3.99% secured loan 2024	–	–	(82.5)	(82.5)
Bank borrowings due after one year	–	–	(4.9)	(4.9)
Intercompany loan	–	–	(168.3)	(168.3)
Leasehold liabilities	–	–	(24.1)	(24.1)
Derivative financial instruments	(0.8)	–	–	(0.8)
Other liabilities – current (restated) ²	–	(1,285.3)	(16.4)	(1,301.7)
	(0.8)	(1,285.3)	(1,095.2)	(2,381.3)
At 31 December 2021	(0.8)	681.2	(1,095.2)	(414.8)

1 In 2022, other assets includes all amounts shown as trade and other receivables in note 21 except lease incentives and costs, sales and social security taxes; and prepayments of £24.6m (2021: £23.0m) for the Company. All amounts are non-interest bearing and are receivable within one year.

2 In 2022, other liabilities include all amounts shown as trade and other payables in note 23 except deferred income and sales and social security taxes of £5.5m (2021: £2.4m) for the Company. All amounts are non-interest bearing and are due within one year.

Reconciliation of net financial assets and liabilities to gross debt

	Group		Company	
	2022 £m	2021 Restated £m	2022 £m	2021 Restated £m
Net financial assets and liabilities	(1,250.8)	(1,280.6)	(937.6)	(414.8)
Other assets – current	(12.5)	(13.1)	(1,763.4)	(1,875.9)
Other liabilities – current	60.8	78.4	1,702.0	1,301.7
Cash and cash equivalents	(76.6)	(105.5)	(67.3)	(90.6)
Gross debt	(1,279.1)	(1,320.8)	(1,066.3)	(1,079.6)

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26 FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUES continued

Fair value measurement

The table below shows the fair values, where applicable, of borrowings and derivative financial instruments held by the Group, together with a reconciliation to net financial assets and liabilities. Details of inputs and valuation methods used to derive the fair values are shown in note 25.

The fair values of the following financial assets and liabilities are the same as their carrying values:

- Cash and cash equivalents.
- Trade receivables, other receivables and accrued income included within trade and other receivables.
- Trade payables, other payables and accruals included within trade and other payables.
- Leasehold liabilities.

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2022 or 2021.

27 NET DEBT TO CASH FLOW RECONCILIATION

Net debt reconciliation

The table below shows net debt movement during the year as a result of cash flows and other non-cash movements.

	2021 £m	Cash flows £m	Non-cash changes						2022 £m
			Impact of issue and arrangement costs £m	Fair value adjustments £m	Acquisitions £m	Unwind of discount £m	Disposals	Transfer from non- current to current	
Group									
Current liabilities									
Borrowings	12.3	7.4	–	–	–	–	–	–	19.7
Leasehold liabilities	51.2	–	–	–	–	–	(50.7)	–	0.5
Non-current liabilities									
Borrowings	1,237.1	(10.1)	2.7	(0.3)	–	–	–	–	1,229.4
Leasehold liabilities	19.4	–	–	–	15.6	0.5	(1.0)	–	34.5
Total liabilities from financing activities	1,320.0	(2.7)	2.7	(0.3)	15.6	0.5	(51.7)	–	1,284.1
Cash at bank ¹	(68.5)	41.6	–	–	–	–	–	–	(26.9)
Net debt	1,251.5	38.9	2.7	(0.3)	15.6	0.5	(51.7)	–	1,257.2
Company									
Current liabilities									
Leasehold liabilities	1.2	–	–	–	–	0.1	–	–	1.3
Non-current liabilities									
Borrowings	1,054.7	(10.1)	2.5	1.3	–	–	–	–	1,048.4
Leasehold liabilities	22.9	–	–	–	–	(1.3)	–	–	21.6
Total liabilities from financing activities	1,078.8	(10.1)	2.5	1.3	–	(1.2)	–	–	1,071.3
Cash at bank ¹	(68.2)	41.8	–	–	–	–	–	–	(26.4)
Net debt	1,010.6	31.7	2.5	1.3	–	(1.2)	–	–	1,044.9

¹ Cash at bank excluding restricted cash (see note 33).

28 DEFERRED TAX

	Revaluation (deficit)/surplus £m	Other £m	Total £m
Group			
At 1 January 2022	3.3	(3.6)	(0.3)
Charged/(credited) to the income statement	0.2	(0.1)	0.1
Charged to other comprehensive income	0.2	–	0.2
Charged to equity	–	0.6	0.6
At 31 December 2022	3.7	(3.1)	0.6
At 1 January 2021	3.5	(3.0)	0.5
(Credited)/charged to the income statement	(1.6)	0.5	(1.1)
Change in tax rates in the income statement	0.1	(0.8)	(0.7)
Charged to other comprehensive income	0.9	0.5	1.4
Change in tax rates in other comprehensive income	0.4	(0.1)	0.3
Credited to equity	–	(0.7)	(0.7)
At 31 December 2021	3.3	(3.6)	(0.3)
Company			
At 1 January 2022	–	(3.6)	(3.6)
Credited to the income statement	–	(0.1)	(0.1)
Charged to equity	–	0.7	0.7
At 31 December 2022	–	(3.0)	(3.0)
At 1 January 2021	–	(3.1)	(3.1)
Charged to the income statement	–	1.0	1.0
Credited to equity	–	(0.7)	(0.7)
Change in tax rates in the income statement	–	(0.8)	(0.8)
At 31 December 2021	–	(3.6)	(3.6)

Deferred tax on the balance sheet revaluation deficit/surplus is calculated on the basis of the chargeable gains that would crystallise on the sale of the property portfolio at each balance sheet date. The calculation takes account of any available indexation on the historical cost of the properties. Due to the Group's REIT status, deferred tax is only provided at each balance sheet date on properties outside the REIT ring-fence.

Where applicable, deferred tax assets in the Company have been recognised in respect of all tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered.

29 SHARE CAPITAL

The movement in the number of 5p ordinary shares in issue is shown in the table below:

Number of shares in issue fully paid	Number
At 1 January 2021	111,961,411
Issued as a result of awards vesting under the Group's Performance Share Plan	187,638
Issued as a result of the exercise of share options ¹	59,461
At 31 December 2021	112,208,510
Issued as a result of awards vesting under the Group's Performance Share Plan	39,614
Issued as a result of the exercise of share options ¹	25,984
At 31 December 2022	112,274,108

¹ Proceeds from these issues were £1.2m (2021: £1.8m).

The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee and note 13.

NOTES TO THE FINANCIAL STATEMENTS continued

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30 RESERVES

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other reserves:	
Merger	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS).
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax.
Other	Equity portion of the convertible bonds for the Group and intercompany loans for the Company. Fair value of equity instruments granted but not yet exercised under share-based payments.
Retained earnings	Cumulative net gains and losses recognised in the Group income statement together with other items such as dividends.

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Other reserves				
Merger reserve	910.5	910.5	910.5	910.5
Revaluation reserve	16.0	15.5	–	–
Equity portion of the convertible bonds	7.5	7.5	–	–
Equity portion of long-term intercompany loan	–	–	7.5	7.5
Fair value of equity instruments under share-based payments	7.9	7.6	7.9	7.6
	941.9	941.1	925.9	925.6

31 PROFIT FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF DERWENT LONDON PLC

(Loss)/profit for the year in the Group income statement includes a profit of £34.3m (2021: £11.6m) generated by the Company. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements.

32 DIVIDEND

	Payment date	Dividend per share			2022 £m	2021 £m
		PID p	Non-PID p	Total p		
Current year						
2022 final dividend ¹	2 June 2023	38.50	16.00	54.50	–	–
2022 interim dividend	14 October 2022	24.00	–	24.00	26.9	–
		62.50	16.00	78.50	26.9	–
Prior year						
2021 final dividend	1 June 2022	35.50	18.00	53.50	60.1	–
2021 interim dividend	15 October 2021	23.00	–	23.00	–	25.8
		58.50	18.00	76.50	60.1	25.8
2020 final dividend	4 June 2021	35.00	17.45	52.45	–	58.8
Dividends as reported in the Group statement of changes in equity					87.0	84.6
2022 interim dividend withholding tax	13 January 2023				(3.7)	–
2021 interim dividend withholding tax	14 January 2022				3.5	(3.5)
2020 interim dividend withholding tax	14 January 2021				–	3.2
Dividends paid as reported in the Group cash flow statement					86.8	84.3

¹ Subject to shareholder approval at the AGM on 12 May 2023.

33 CASH AND CASH EQUIVALENTS

	Group		Company	
	2022 £m	2021 Restated £m	2022 £m	2021 Restated £m
Cash at bank	26.9	68.5	26.4	68.2
Cash held in restricted accounts				
Tenant rent deposits	27.3	17.6	27.3	17.6
Service charge balances	22.4	19.4	13.6	4.8
	76.6	105.5	67.3	90.6

Prior year Group and Company cash and cash equivalents have been restated to include £17.6m of tenant deposits, which are subject to contractual restrictions.

In addition, £19.4m for the Group and £4.8m for the Company of cash collected on behalf of tenants to fund the service charge of properties in the portfolio has now been reclassified from trade and other receivables and presented as restricted cash. For further information refer to note 2.

34 CAPITAL COMMITMENTS

Contracts for capital expenditure entered into by the Group at 31 December 2022 and not provided for in the accounts relating to the construction, development or enhancement of the Group's investment properties amounted to £147.3m (2021: £51.2m), whilst that relating to the Group's trading properties amounted to £87.9m (2021: £0.9m). At 31 December 2022 and 31 December 2021, there were no material contractual obligations for the purchase, repair or maintenance of investment or trading properties.

35 CONTINGENT LIABILITIES

In May 2022, Derwent London exchanged a conditional contract to acquire the freehold of the Old Street Quarter site, the existing site of the Moorfields Eye Hospital and the UCL Institute of Ophthalmology. Consideration for the site has been agreed as £239m before costs, subject to receipt of final Treasury approval (subsequently received in February 2023), delivery of the new hospital at St Pancras and subsequent vacant possession of the Old Street Quarter island site.

In 2021, the Group entered into a 50:50 joint venture with Lazari Investments Limited, Derwent Lazari Baker Street Limited Partnership (see note 19). Subject to receiving planning on a scheme which includes the three leasehold properties within the joint venture and a fourth property owned by the freeholder, and a regear of the headlease, an additional £7.3m of deferred consideration is payable to Lazari Investments Limited. The deferred consideration is treated as a contingent liability in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as the amount is only confirmed by the occurrence of uncertain future events not wholly within the control of the Group.

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2022 and 31 December 2021, there was no liability that could arise for the Company from the cross guarantees.

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

One of the components of the Directors' year end bonuses is calculated from the Group's 'total return' performance relative to a comparator group of real estate companies (see page 215). In light of recent exceptional volatility in respect of the property indices used to estimate property valuations for those comparator companies who have not released December 2022 results, the Remuneration Committee has not been able to accurately determine the total return performance of this comparator group. As a result, no provision has been made for this element of the bonus for the year ended 31 December 2022. The Committee will determine the vesting outcome of this element of the bonus in the coming months, when there is greater clarity in respect of the comparator group total return performance.

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for the year ended 31 December 2022

36 LEASES

	2022 £m	2021 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	200.8	188.5
later than one year and not later than five years	642.3	609.4
later than five years	884.1	833.5
	1,727.2	1,631.4

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Headlease obligations				
Minimum lease payments under headleases that fall due:				
not later than one year	1.8	52.2	2.1	2.1
later than one year and not later than five years	6.9	3.2	8.4	8.3
later than five years	211.3	193.7	18.9	21.0
	220.0	249.1	29.4	31.4
Future contingent rent payable on headleases	–	(0.3)	–	–
Future finance charges on headleases	(185.0)	(178.2)	(6.5)	(7.3)
Present value of headlease liabilities	35.0	70.6	22.9	24.1
Present value of minimum headlease obligations:				
not later than one year	0.5	51.2	1.3	1.2
later than one year and not later than five years	1.7	(0.1)	5.5	5.3
later than five years	32.8	19.5	16.1	17.6
	35.0	70.6	22.9	24.1

The Group has approximately 629 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 20 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs. The weighted average lease length of the leases commencing during 2022 was 8.1 years (2021: 8.4 years). Of these leases, on a weighted average basis, 94% (2021: 94%) included a rent-free or half rent period.

37 POST BALANCE SHEET EVENTS

In January 2023, the Group exchanged contracts and completed the disposal of its freehold interest in 19 Charterhouse Street EC1 for £54.0m before costs.

38 LIST OF SUBSIDIARIES AND JOINT VENTURES

A full list of subsidiaries and joint ventures as at 31 December 2022 is set out below:

	Ownership ²	Principal
Subsidiaries		
Asta Commercial Limited	100%	Property investment
Bargate Quarter Limited	65%	Investment company
BBR (Commercial) Limited	100%	Dormant
BBR Property Limited ¹	100%	Dormant
Caledonian Properties Limited	100%	Property investment
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Carlton Construction & Development Company Limited	100%	Dormant
Central London Commercial Estates Limited	100%	Property investment
Charlotte Apartments Limited	100%	Property investment
80 Charlotte Street Limited ¹	100%	Property investment
Derwent Asset Management Limited ¹	100%	Property management
Derwent Central Cross Limited ¹	100%	Property investment
Derwent Henry Wood Limited ¹	100%	Property investment
Derwent London Angel Building Limited	100%	Property investment
Derwent London AD Limited ¹	100%	Energy production
Derwent London Asta Limited	100%	Property trading
Derwent London Asta Residential Limited	100%	Dormant
Derwent London Baker Street Limited	100%	Property investment
Derwent London BH Limited ¹	100%	Property investment
Derwent London Brixton Limited ¹	100%	Property investment
Derwent London BSP Limited	100%	Property investment
Derwent London Capital No. 3 (Jersey) Limited ¹	100%	Finance company
Derwent London Charlotte Street (Commercial) Limited	100%	Dormant
Derwent London Charlotte Street Limited ¹	100%	Dormant
Derwent London Copyright House Limited ¹	100%	Dormant
Derwent London Development Services Limited ¹	100%	Development services
Derwent London Farringdon Limited ¹	100%	Property investment
Derwent London Featherstone Limited ¹	100%	Property investment
Derwent London Gallery Limited ¹	100%	Property investment
Derwent London Grafton Limited ¹	100%	Dormant
Derwent London George Street Limited ¹	100%	Property trading
Derwent London Green Energy Limited ¹	100%	Energy production
Derwent London Holden House Limited ¹	100%	Property investment
Derwent London Holford Works Limited ¹	100%	Property investment
Derwent London Horseferry Limited ¹	100%	Property investment
Derwent London Howland Limited ¹	100%	Dormant
Derwent London KSW Limited ¹	100%	Property investment
Derwent London No.2 Limited ¹	100%	Property investment
Derwent London No.4 Limited ¹	100%	Property investment
Derwent London No.5 Limited ¹	100%	Property investment
Derwent London No.6 Limited ¹	100%	Property investment
Derwent London Oliver's Yard Limited ¹	100%	Property investment
Derwent London Page Street (Nominee) Limited	100%	Dormant
Derwent London Page Street Limited ¹	100%	Property investment
Derwent London Savile Row Limited ¹	100%	Property investment
Derwent London White Chapel Limited ¹	100%	Property investment
Derwent London White Collar Limited ¹	100%	Property investment

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for the year ended 31 December 2022

38 LIST OF SUBSIDIARIES AND JOINT VENTURES continued

	Ownership ²	Principal
Subsidiaries continued		
Derwent London Whitfield Street Limited ¹	100%	Property investment
Derwent Valley Central Limited ¹	100%	Property investment
Derwent Valley Employee Trust Limited ¹	100%	Employee trust
Derwent Valley Finance Limited	100%	Investment holding
Derwent Valley Limited	100%	Holding company
Derwent Valley London Limited ¹	100%	Property investment
Derwent Valley Property Developments Limited ¹	100%	Property investment
Derwent Valley Property Investments Limited ¹	100%	Property investment
Derwent Valley Property Trading Limited ¹	100%	Property trading
Derwent Valley Railway Company ¹	100%	Dormant
Derwent Valley West End Limited ¹	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS Finance Limited	100%	Investment holding
LMS Offices Limited	100%	Property investment
London Merchant Securities Limited ¹	100%	Holding company
The New River Company Limited	100%	Property investment
Urbanfirst Limited	100%	Investment holding
West London & Suburban Property Investments Limited	100%	Property investment
Joint ventures		
Derwent Lazari Baker Street GP Limited	50%	Management company
Dorrington Derwent Holdings Limited	50%	Holding company
Dorrington Derwent Investments Limited	50%	Investment company
Prescot Street GP Limited	50%	Management company
Prescot Street Nominees Limited	50%	Dormant
Primister Limited	50%	Property investment

¹ Indicates subsidiary undertakings held directly.

² All holdings are of ordinary shares.

The Company controls 50% of the voting rights of its joint ventures, which are accounted for and disclosed in accordance with IFRS 11 Joint Arrangements.

All of the entities above are incorporated and domiciled in England and Wales, with the exception of Derwent London Capital No. 3 (Jersey) Limited which is incorporated and domiciled in Jersey. In addition, all the entities are registered at 25 Savile Row, London, W1S 2ER, with the exception of:

- Derwent London Capital No. 3 (Jersey) Limited, which is registered at 47 Esplanade, St Helier, JE1 0BD, Channel Islands;
- Dorrington Derwent Holdings Limited and Dorrington Derwent Investments Limited, which are registered at 16 Hans Road, London, SW3 1RT; and
- Primister Limited, which is registered at Quadrant House, Floor 6, 4 Thomas More Square, London, E1W 1YW.

39 RELATED PARTY DISCLOSURE

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 190 to 223 and note 11. Details of transactions with joint ventures are shown in note 19. A full list of subsidiaries and joint ventures is given in note 38. Other related party transactions are as follows:

Group

The Group earned fees of £0.5m (2021: £0.1m) in relation to development management, asset management and administration of the Derwent Lazari Baker Street Limited Partnership.

Company

The Company received interest from and paid interest to some of its subsidiaries during the year. These transactions are summarised below:

	Interest income/(expense)		Balance receivable/(payable)	
	2022 £m	2021 £m	2022 £m	2021 Restated £m
Related party				
80 Charlotte Street Limited	9.3	9.1	270.7	222.7
Derwent Asset Management Limited	–	–	(1.1)	(1.0)
Derwent Central Cross Limited	6.6	7.6	174.3	180.6
Derwent Henry Wood Limited	(0.2)	(0.2)	(3.5)	(5.3)
Derwent London AD Limited	–	–	(5.0)	(5.0)
Derwent London Angel Square Limited	–	(0.2)	–	–
Derwent London BH Limited	(0.3)	0.2	(45.8)	14.7
Derwent London Brixton Limited	1.1	1.8	12.1	40.9
Derwent London BSP Limited	1.3	–	35.7	3.3
Derwent London Capital No. 3 (Jersey) Limited ¹	(3.9)	(3.9)	(170.2)	(168.3)
Derwent London Development Services Limited	2.1	2.7	30.4	80.3
Derwent London Farringdon Limited	(0.7)	(0.6)	(24.8)	(18.3)
Derwent London Featherstone Limited	1.0	0.9	34.6	20.4
Derwent London Gallery Limited	–	–	0.4	(0.2)
Derwent London George Street Limited	(0.1)	–	8.1	(4.5)
Derwent London Green Energy Limited	–	–	(3.9)	(4.6)
Derwent London Holden House Limited	3.1	4.9	46.1	117.2
Derwent London Holford Works Limited	0.6	0.5	16.2	15.9
Derwent London Horseferry Limited	–	(0.1)	–	(3.0)
Derwent London KSW Limited	(4.1)	(4.4)	(110.6)	(107.0)
Derwent London No.2 Limited	3.4	1.1	56.3	128.0
Derwent London No.4 Limited	1.3	–	37.0	(20.0)
Derwent London No.5 Limited	–	–	(17.3)	–
Derwent London No.6 Limited	–	–	3.1	–
Derwent London Oliver's Yard Limited	2.6	5.2	18.1	124.5
Derwent London Page Street Limited	–	(0.2)	–	(5.8)
Derwent London Savile Row Limited	–	(0.1)	(0.5)	(5.2)
Derwent London White Chapel Limited	1.2	–	64.6	(2.8)
Derwent London White Collar Limited	–	–	(2.0)	(2.3)
Derwent London Whitfield Street Limited	1.7	1.9	45.5	46.1
Derwent Valley Central Limited	3.6	4.2	(20.0)	114.8
Derwent Valley London Limited	4.4	2.4	150.5	109.1
Derwent Valley Property Developments Limited	(8.1)	(7.9)	(223.1)	(195.1)
Derwent Valley Property Investments Limited	(4.8)	(5.0)	(131.2)	(123.1)
Derwent Valley Property Trading Limited	0.1	0.3	2.5	6.1
Derwent Valley Railway Company ²	–	–	(0.2)	(0.2)
Derwent Valley West End Limited	(0.1)	(0.1)	(3.8)	(3.7)
London Merchant Securities Limited ³	(10.9)	(5.6)	(339.5)	(142.1)
	10.2	14.5	(96.3)	407.1

¹ The payable balance at 31 December 2022 includes the intercompany loan of £170.1m (2021: £168.3m) included in note 25.

² Dormant company.

³ Balance owed includes subsidiaries which form part of the LMS sub-group.

The Company has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand except the loan from Derwent London Capital No. 3 (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds.

Interest is charged on the on-demand intercompany balances at an arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

40 EPRA PERFORMANCE MEASURES AND CORE RECOMMENDATIONS

Unaudited unless stated otherwise.

Summary table of EPRA performance measures

	2022		2021	
		Pence per share p		Pence per share p
EPRA earnings (audited ¹) (restated)	£119.7m	106.62	£121.7m	108.53
EPRA Net Tangible Assets (audited ¹)	£4,083.7m	3,632	£4,454.2m	3,959
EPRA Net Disposal Value (audited ¹)	£4,236.2m	3,768	£4,369.6m	3,884
EPRA Net Reinstatement Value (audited ¹)	£4,447.4m	3,956	£4,839.7m	4,301
EPRA Cost Ratio (including direct vacancy costs) (restated)	23.3%		24.9%	
EPRA Cost Ratio (excluding direct vacancy costs) (restated)	19.5%		21.7%	
EPRA Net Initial Yield	3.7%		3.3%	
EPRA 'topped-up' Net Initial Yield	4.6%		4.4%	
EPRA Vacancy Rate	6.4%		1.6%	

¹ EPRA earnings and EPRA Net Asset Value metrics for 2022 have been audited.

The definition of these measures can be found on pages 311 and 312.

Number of shares

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2022 Audited '000	2021 Unaudited '000	2022 Audited '000	2021 Unaudited '000
For use in basic measures	112,270	112,139	112,291	112,209
Dilutive effect of share-based payments	142	273	138	308
For use in diluted measures	112,412	112,412	112,429	112,517

The £175m unsecured convertible bonds 2025 ('2025 bonds') have an initial conversion price set at £44.96.

The Group recognises the effect of conversion of the bonds if they are both dilutive and, based on the share price, likely to convert. For the year ended 31 December 2021 and 2022, the Group did not recognise the dilutive impact of the conversion of the 2025 bonds on its earnings per share (EPS) or net asset value (NAV) per share metrics as, based on the share price at the end of each year, the bonds were not expected to convert.

The following tables set out reconciliations between the IFRS and EPRA earnings for the year and earnings per share. The adjustments made between the figures are as follows:

- A – Disposal of investment and trading property (including the Group's share in joint ventures), and associated tax and non-controlling interest.
- B – Revaluation movement on investment property and in joint ventures, write-down of trading property and associated deferred tax and non-controlling interest.
- C – Fair value movement and termination costs relating to derivative financial instruments, associated non-controlling interest and loan arrangement costs written off.

Earnings and earnings per share

	Adjustments				EPRA basis £m
	IFRS £m	A £m	B £m	C £m	
Year ended 31 December 2022 (audited)					
Net property and other income	194.6	(0.2)	0.2	–	194.6
Total administrative expenses	(36.4)	–	–	–	(36.4)
Revaluation deficit	(422.1)	–	422.1	–	–
Profit on disposal of investments	25.6	(25.6)	–	–	–
Net finance costs	(39.4)	–	–	–	(39.4)
Movement in fair value of derivative financial instruments	5.8	–	–	(5.8)	–
Financial derivative termination costs	(0.3)	–	–	(0.1)	(0.4)
Share of results of joint ventures	(7.3)	–	9.3	–	2.0
Loss before tax	(279.5)	(25.8)	431.6	(5.9)	120.4
Tax charge	(1.0)	–	0.3	–	(0.7)
Earnings attributable to equity shareholders	(280.5)	(25.8)	431.9	(5.9)	119.7
(Loss)/earnings per share	(249.84p)				106.62p
Diluted (loss)/earnings per share	(249.84p)				106.48p

The diluted loss per share for the period to 31 December 2022 was restricted to a loss of 249.84p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings Per Share.

	Adjustments				EPRA basis £m
	IFRS £m	A £m	B £m	C £m	
Year ended 31 December 2021 (unaudited)					
Net property and other income (restated)	187.2	(0.7)	1.4	–	187.9
Total administrative expenses	(37.1)	–	–	–	(37.1)
Revaluation surplus (restated)	131.1	–	(131.1)	–	–
Profit on disposal of investments	10.4	(10.4)	–	–	–
Net finance costs	(28.1)	–	–	–	(28.1)
Movement in fair value of derivative financial instruments	4.8	–	–	(4.8)	–
Financial derivative termination costs	(1.9)	–	–	1.9	–
Share of results of joint ventures	(13.9)	–	14.2	–	0.3
Profit before tax	252.5	(11.1)	(115.5)	(2.9)	123.0
Tax credit	1.3	–	(1.5)	–	(0.2)
Profit for the year	253.8	(11.1)	(117.0)	(2.9)	122.8
Non-controlling interest	(1.5)	–	0.4	–	(1.1)
Earnings attributable to equity shareholders (restated)	252.3	(11.1)	(116.6)	(2.9)	121.7
Earnings per share (restated)	224.99p				108.53p
Diluted earnings per share (restated)	224.44p				108.26p

NOTES TO THE FINANCIAL STATEMENTS continued

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40 EPRA PERFORMANCE MEASURES AND CORE RECOMMENDATIONS continued

EPRA Net Asset Value metrics

	2022 Audited £m	2021 Unaudited £m
Net assets attributable to equity shareholders	4,075.5	4,441.8
Adjustment for:		
Revaluation of trading properties	4.8	1.9
Deferred tax on revaluation surplus ¹	1.9	1.7
Fair value of derivative financial instruments	(5.0)	0.8
Fair value adjustment to secured bonds	6.5	8.0
EPRA Net Tangible Assets	4,083.7	4,454.2
Per share measure – diluted	3,632p	3,959p
Net assets attributable to equity shareholders	4,075.5	4,441.8
Adjustment for:		
Revaluation of trading properties	4.8	1.9
Fair value adjustment to secured bonds	6.5	8.0
Mark-to-market of fixed rate debt	159.5	(69.5)
Unamortised issue and arrangement costs	(10.1)	(12.6)
EPRA Net Disposal Value	4,236.2	4,369.6
Per share measure – diluted	3,768p	3,884p
Net assets attributable to equity shareholders	4,075.5	4,441.8
Adjustment for:		
Revaluation of trading properties	4.8	1.9
Deferred tax on revaluation surplus	3.7	3.3
Fair value of derivative financial instruments	(5.0)	0.8
Fair value adjustment to secured bonds	6.5	8.0
Purchasers' costs ²	361.9	383.9
EPRA Net Reinstatement Value	4,447.4	4,839.7
Per share measure – diluted	3,956p	4,301p

1 Only 50% of the deferred tax on the revaluation surplus is excluded.

2 Includes Stamp Duty Land Tax. Total costs assumed to be 6.8% of the portfolio's fair value.

Cost ratio (unaudited)

	2022 £m	2021 Restated £m
Administrative expenses	36.4	37.1
Write-off/impairment of receivables	(1.0)	2.2
Other property costs	12.7	10.4
Dilapidation receipts	(0.5)	(0.9)
Net service charge costs	5.1	3.4
Service charge costs recovered through rents but not separately invoiced	(0.7)	(0.6)
Management fees received less estimated profit element	(4.2)	(3.5)
Share of joint ventures' expenses	0.5	0.1
EPRA costs (including direct vacancy costs) (A)	48.3	48.2
Direct vacancy costs	(7.9)	(6.1)
EPRA costs (excluding direct vacancy costs) (B)	40.4	42.1
Gross rental income	207.0	195.3
Ground rent	(1.7)	(1.4)
Service charge components of rental income	(0.7)	(0.5)
Share of joint ventures' rental income less ground rent	2.5	0.5
Adjusted gross rental income (C)	207.1	193.9
EPRA cost ratio (including direct vacancy costs) (A/C)	23.3%	24.9%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	19.5%	21.7%

In addition to the two EPRA cost ratios, the Group has calculated an additional cost ratio based on its property portfolio fair value to recognise the 'total return' nature of the Group's activities.

	2022 £m	2021 Restated £m
Property portfolio at fair value (D)	5,321.8	5,646.3
Portfolio cost ratio (A/D)	0.9%	0.9%

The Group has not capitalised any overheads in either 2022 or 2021.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

40 EPRA PERFORMANCE MEASURES AND CORE RECOMMENDATIONS continued

Net Initial Yield and 'topped-up' Net Initial Yield (unaudited)

	2022 £m	2021 £m
Property portfolio – wholly owned	5,321.8	5,646.3
Share of joint ventures	42.5	50.0
Less non-EPRA properties ¹	(364.4)	(785.3)
Completed property portfolio	4,999.9	4,911.0
Allowance for:		
Estimated purchasers' costs	340.0	334.0
EPRA property portfolio valuation (A)	5,339.9	5,245.0
Annualised contracted rental income, net of ground rents	201.6	175.9
Share of joint ventures	2.6	2.5
Less non-EPRA properties ¹	(0.6)	(0.5)
Add outstanding rent reviews	3.1	0.1
Less estimate of non-recoverable expenses	(7.5)	(3.5)
	(5.0)	(3.9)
Current income net of non-recoverable expenses (B)	199.2	174.5
Contractual rental increases across the portfolio	46.4	55.5
Contractual rental increases across the EPRA portfolio	46.4	55.5
'Topped-up' net annualised rent (C)	245.6	230.0
EPRA net initial yield (B/A)	3.7%	3.3%
EPRA 'topped-up' net initial yield (C/A)	4.6%	4.4%

Vacancy rate (unaudited)

	2022 £m	2021 £m
Annualised estimated rental value of vacant premises	17.3	3.8
Portfolio estimated rental value	307.7	293.8
Less non-EPRA properties ¹	(38.0)	(59.9)
	269.7	233.9
EPRA vacancy rate	6.4%	1.6%

¹ In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

Like-for-like rental growth (unaudited)

	Like-for-like portfolio £m	Development property £m	Acquisitions and disposals £m	Total £m
2022				
Gross rental income	181.9	15.0	10.1	207.0
Other property expenditure	(13.8)	(5.2)	(0.5)	(19.5)
Write-off/impairment of receivables	0.2	0.7	0.1	1.0
Net rental income	168.3	10.5	9.7	188.5
Other	6.1	(0.2)	0.2	6.1
Net property and other income	174.4	10.3	9.9	194.6
2021				
Gross rental income	179.9	7.1	8.3	195.3
Other property expenditure	(11.9)	(1.3)	(2.0)	(15.2)
Write-off/impairment of receivables	(1.6)	(0.4)	(0.2)	(2.2)
Net rental income	166.4	5.4	6.1	177.9
Other	9.8	(1.2)	0.7	9.3
Net property and other income	176.2	4.2	6.8	187.2
Change based on:				
Gross rental income	1.1%			6.0%
Net rental income	1.1%			6.0%
Net property and other income	(1.0%)			4.0%

Property-related capital expenditure (unaudited)

	2022			2021		
	Group (excl. Joint ventures) £m	Joint ventures (50% share) £m	Total Group £m	Group (excl. Joint ventures) £m	Joint ventures (50% share) £m	Total Group £m
Acquisitions	133.0	–	133.0	353.6	60.0	413.6
Development	94.7	1.6	96.3	146.6	0.2	146.8
Investment properties						
Incremental lettable space	0.9	–	0.9	0.1	–	0.1
No incremental lettable space	18.5	–	18.5	16.7	–	16.7
Tenant incentives	0.8	–	0.8	2.5	–	2.5
Capitalised interest	6.9	–	6.9	12.0	–	12.0
Total capital expenditure	254.8	1.6	256.4	531.5	60.2	591.7
Conversion from accrual to cash basis	11.1	0.1	11.2	(107.6)	(0.2)	(107.8)
Total capital expenditure on a cash basis	265.9	1.7	267.6	423.9	60.0	483.9

1 In the prior year, the conversion from accrual to cash basis figure includes £100.7m in relation to the regrant of a headlease at 25 Baker Street W1.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

41 TOTAL RETURN (UNAUDITED)

	2022 p	2021 p
EPRA Net Tangible Assets on a diluted basis		
At end of year	3,632	3,959
At start of year	(3,959)	(3,812)
(Decrease)/increase	(327)	147
Dividend per share	78	75
(Decrease)/increase including dividend	(249)	222
Total return	(6.3%)	5.8%

42 GEARING AND INTEREST COVER

NAV gearing

	2022 £m	2021 £m
Net debt	1,257.2	1,251.5
Net assets	4,075.5	4,441.8
NAV gearing	30.8%	28.2%

Loan-to-value ratio

	2022 £m	2021 £m
Group loan-to-value ratio		
Net debt	1,257.2	1,251.5
Fair value adjustment of secured bonds	(6.5)	(8.0)
Unamortised discount on unsecured green bonds	1.7	1.8
Unamortised issue and arrangement costs	10.1	12.6
Leasehold liabilities	(35.0)	(70.6)
Drawn debt net of cash (A)	1,227.5	1,187.3
Fair value of property portfolio (B)	5,321.8	5,646.3
Loan-to-value ratio (A/B)	23.1%	21.0%
Proportionally consolidated loan-to-value ratio		
Drawn debt net of cash (A)	1,227.5	1,187.3
Share of cash and cash equivalents in joint ventures	(1.6)	(1.2)
Drawn debt net of cash including Group's share of joint ventures (C)	1,225.9	1,186.1
Fair value of property portfolio (B)	5,321.8	5,646.3
Share of fair value of property portfolio of joint ventures	42.4	50.0
Fair value of property portfolio including Group's share of joint ventures (D)	5,364.2	5,696.3
Proportionally consolidated loan-to-value ratio (C/D)	22.9%	20.8%
EPRA loan-to-value ratio		
Drawn debt net of cash including Group's share of joint ventures (C)	1,225.9	1,186.1
Debt with equity characteristics	(19.7)	(12.3)
Adjustment for hybrid debt instruments	3.3	4.5
Net payables adjustment	74.1	91.7
Adjusted debt (E)	1,283.6	1,270.0
Fair value of property portfolio including Group's share of joint ventures (D)	5,364.2	5,696.3
EPRA loan-to-value ratio (E/D)	23.9%	22.3%

Net interest cover ratio

	2022 £m	2021 Restated £m
Group net interest cover ratio		
Net property and other income	194.6	187.2
Adjustments for:		
Other income	(4.2)	(3.5)
Other property income	(0.3)	(2.0)
Surrender premiums received	(1.1)	(3.6)
Write-down of trading property	0.2	1.4
Profit on disposal of trading properties	(0.2)	(0.7)
Adjusted net property income	189.0	178.8
Finance income	(0.3)	–
Finance costs	39.7	28.1
	39.4	28.1
Adjustments for:		
Finance income	0.3	–
Other finance costs	(0.3)	(0.2)
Amortisation of fair value adjustment to secured bonds	1.4	1.3
Amortisation of issue and arrangement costs	(2.6)	(2.5)
Finance costs capitalised	7.0	12.0
Net interest payable	45.2	38.7
Group net interest cover ratio	418%	462%
Proportionally consolidated net interest cover ratio		
Adjusted net property income	189.0	178.8
Share of joint ventures' net property income	2.1	0.4
Adjusted net property income including share of joint ventures	191.1	179.2
Net interest payable	45.2	38.7
Proportionally consolidated net interest cover ratio	423%	463%

43 SIGNIFICANT ACCOUNTING POLICIES**Basis of consolidation**

The Group financial statements incorporate the financial statements of Derwent London plc and all of its subsidiaries, together with the Group's share of the results of its joint ventures.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IFRS 11 Joint Arrangements, and following the procedures for this method set out in IAS 28 Investments in Associates and Joint Ventures. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the year to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

43 SIGNIFICANT ACCOUNTING POLICIES continued

Gross property income

Gross property income arises from two main sources:

- (i) **Rental income** – This arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee.

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease in accordance with IFRS 16 Leases. This includes the effect of lease incentives given to tenants, which are normally in the form of rent-free or half rent periods or capital contributions in lieu of rent-free periods, and the effect of contracted rent uplifts and payments received from tenants on the grant of leases. Where the total consideration due under a lease is modified, the revised total amount due under the lease is recognised on a straight-line basis over the remaining term of the lease. Where rent demanded is forgiven for periods that have passed, these amounts are assessed under IFRS 9 and written off. Where rent is forgiven for future periods, this is considered a lease modification and spread on a straight-line basis over the remaining lease term in accordance with IFRS 16.

For income from property leased out under a finance lease, a lease receivable asset is recognised in the balance sheet at an amount equal to the net investment in the lease, as defined in IFRS 16 Leases. Minimum lease payments receivable, again defined in IFRS 16, are apportioned between finance income and the reduction of the outstanding lease receivable so as to produce a constant periodic rate of return on the remaining net investment in the lease. Contingent rents, being the difference between the rent currently receivable and the minimum lease payments when the net investment in the lease was originally calculated, are recognised in property income in the years in which they are receivable.

- (ii) **Surrender premiums** – Payments received from tenants to surrender their lease obligations are recognised immediately in the Group income statement. In circumstances where surrender payments received relate to specific periods, they are deferred and recognised in those periods.

Other income

Other income consists of commissions, fees charged to tenants for the management of certain Group properties and administration services provided to joint ventures. Other income is recognised in the Group income statement in accordance with the delivery of services as required by IFRS 15 Revenue from Contracts with Customers.

Service charges

Service charge income relates to expenditure that is directly recoverable from tenants, excluding management fees which are included in 'other income'. Service charge income is recognised as revenue in the period to which it relates as required by IFRS 15 Revenue from Contracts with Customers.

Expenses

- (i) **Lease payments** – Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.
- (ii) **Dilapidations** – Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the Group income statement, unless they relate to future capital expenditure. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.
- (iii) **Reverse surrender premiums** – Payments made to tenants to surrender their lease obligations are charged directly to the Group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, where the costs are considered to be recoverable, they are capitalised as part of the carrying value of the property.
- (iv) **Other property expenditure** – Vacant property costs and other property costs are expensed in the year to which they relate, with the exception of the initial direct costs incurred in negotiating and arranging leases which are, in accordance with IFRS 16 Leases, added to the carrying value of the relevant property and recognised as an expense over the lease term on the same basis as the lease income.

Employee benefits

(i) Share-based remuneration

Equity-settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of the options granted is calculated using a binomial lattice pricing model.

Under the transitional provisions of IFRS 1, no expense is recognised for options or conditional shares granted on or before 7 November 2002.

(ii) Pensions

Defined contribution plans – Obligations for contributions to defined contribution pension plans are recognised as an expense in the Group income statement in the period to which they relate.

Defined benefit plans – The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Any actuarial gain or loss in the period is recognised in full in the Group statement of comprehensive income.

Business combinations

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount is credited to the Group income statement in the period of acquisition. Goodwill is recognised as an asset and reviewed for impairment. Any impairment is recognised immediately in the Group income statement and is not subsequently reversed. Any residual goodwill is reviewed annually for impairment.

Investment property

- (i) **Valuation** – Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. Investment properties are measured initially at cost, including related transaction costs. After initial recognition, they are carried in the Group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive and letting cost receivables. Fair value is the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

Surpluses or deficits resulting from changes in the fair value of investment property are reported in the Group income statement in the year in which they arise.

The Group leases out investment properties under operating leases with rents generally payable monthly or quarterly. The Group is exposed to changes in the residual value of properties at the end of current lease agreements, and mitigates this risk by actively managing its tenant mix in order to maximise the weighted average lease term, minimise vacancies across the portfolio and maximise exposure to tenants with strong financial characteristics. The Group also grants lease incentives to encourage high quality tenants to remain in properties for longer lease terms.

- (ii) **Capital expenditure** – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23 Borrowing Costs, finance costs that are directly attributable to such expenditure are capitalised using the Group's average cost of borrowings during each quarter.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

43 SIGNIFICANT ACCOUNTING POLICIES continued

Investment property continued

- (iii) **Disposal** – Properties are treated as disposed when the Group transfers the significant risks and rewards of ownership to the buyer. Generally this would occur on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received. Any contingent consideration is recognised at fair value at the balance sheet date. The fair value is calculated using future discounted cash flows based on expected outcomes with estimated probabilities taking account of the risk and uncertainty of each input.
- (iv) **Development** – When the Group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing as an investment property, the property is classified as an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is remeasured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

Trading property and trading stock

Trading property relates to property being developed for sale. Trading stock relates to development expenditure which is due to be disposed of to third parties under development agreements. In accordance with IAS 2 Inventories, trading property and trading stock are held at the lower of cost and net realisable value. Proceeds from sale are recognised in the Group's income statement when title has been transferred to the purchaser as required by IFRS 15 Revenue from Contracts with Customers.

Property, plant and equipment

- (i) **Owner-occupied property** – Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Surpluses or deficits resulting from changes in the fair value are reported in the Group statement of comprehensive income. The land element of the property is not depreciated.
- (ii) **Artwork** – Artwork is stated at revalued amounts on the basis of open market value.
- (iii) **Other** – Plant and equipment is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the individual assets, over their expected useful lives.

Investments

Investments in joint ventures, being those entities over whose activities the Group has joint control, as established by contractual agreement, are included in the Group's balance sheet at cost together with the Group's share of post-acquisition reserves, on a net equity basis. Investments in subsidiaries and joint ventures are included in the Company's balance sheet at the lower of cost and recoverable amount. Any impairment is recognised immediately in the income statement.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for immediate sale in its present condition, being actively marketed and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets, including related liabilities, classified as held for sale are measured at the lower of carrying value and fair value less costs of disposal.

Financial assets

- (i) **Cash and cash equivalents** – Cash at bank comprises cash in hand and on-demand deposits. Cash at bank comprises short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Tenant rent deposits are subject to contractual restrictions and meet the definition of 'cash and cash equivalents' under IAS 7 and are recognised as restricted cash.

Cash collected on behalf of tenants to fund service charges of properties in the portfolio meet the definition of 'cash and cash equivalents' under IAS 7 and are recognised as restricted cash.

- (ii) **Trade receivables** – Trade receivables are recognised and carried at the original transaction value. This balance is subject to impairment testing under IFRS 9 using the forward-looking, simplified approach to the expected credit loss model.
- (iii) **Lease incentive receivables** – In accordance with IFRS 16, rental income is recognised in the Group income statement on a straight-line basis over the term of the lease. This includes the effect of lease incentives given to tenants (in the form of rent-free periods, half rent periods or capital contributions in lieu of rent-free periods) and any contracted rental uplifts granted at lease inception. The result is a receivable balance included within accrued income in the balance sheet. This balance is subject to impairment testing under IFRS 9 using the forward-looking, simplified approach to the expected credit loss model.

Financial liabilities

- (i) **Bank loans and fixed rate loans** – Bank loans and fixed rate loans are included as financial liabilities on the balance sheets at amortised cost. Interest payable is expensed as a finance cost in the year to which it relates.

Where there has been a change to the terms of a debt agreement, such as the applicable interest rate or benchmark rate, this is assessed under IFRS 9 using quantitative and qualitative assessments to determine if the debt modification is considered substantial enough to be deemed an extinguishment. It is common for loan facilities agreements to include extension options which extend the loan maturity out by one year. When these options are exercised as per the agreement, with no changes to other terms, this is deemed to be a modification of the loan and not an extinguishment.

- (ii) **Non-convertible bonds** – These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bond holders is expensed in the year to which it relates.
- (iii) **Convertible bonds** – The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.
- (iv) **Finance lease liabilities** – Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.
- (v) **Interest rate derivatives** – The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group's business. No trading in financial instruments is undertaken.

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement because the Group does not apply hedge accounting.

- (vi) **Trade payables** – Trade payables are recognised and carried at the original transaction value.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2022

43 SIGNIFICANT ACCOUNTING POLICIES continued

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of available indexation on the historical cost of the properties.

Deferred tax is calculated at the tax rates that are expected to apply in the period, based on Acts substantially enacted at the year end, when the liability is settled or the asset is realised. Deferred tax is included in profit or loss for the period, except when it relates to items recognised in other comprehensive income or directly in equity.

Cash flow

Transactions in the cash flow statement under operating, investing and financing activities have been prepared net of value added tax in order to reflect the true cash inflows and outflows of the Group.

Dividends

Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

TEN-YEAR SUMMARY

(unaudited)

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Income statement										
Gross property income ¹	208.4	200.9	205.2	192.7	196.0	172.2	156.0	152.0	138.4	131.6
Net property income and other income ¹	194.6	187.2	183.5	182.6	185.9	164.8	149.2	148.6	136.1	124.3
Profit on disposal of properties and investments	25.6	10.4	1.7	13.8	5.2	50.3	7.5	40.2	30.2	53.5
(Loss)/profit before tax	(279.5)	252.5	(83.0)	280.6	221.6	314.8	54.5	779.5	753.7	467.9
Earnings and dividend per share										
EPRA earnings ¹	119.7	121.7	109.6	115.1	126.1	105.0	85.7	78.7	58.6	55.1
EPRA earnings per share (p) ¹	106.62	108.53	97.93	103.09	113.07	94.23	76.99	71.34	57.08	53.87
Dividend paid (p)	77.50	75.45	73.45	67.75	136.50	107.83	44.66	40.60	37.40	34.50
Interim/final dividend for the year (p)	78.50	76.50	74.45	72.45	65.85	59.73	52.36	43.40	39.65	36.50
Special dividend paid (p)	–	–	–	–	–	75.00	52.00	–	–	–
Net asset value										
Net assets	4,075.5	4,441.8	4,315.1	4,476.9	4,263.4	4,193.2	3,999.4	3,995.4	3,075.7	2,370.5
Net asset value per share (p) – undiluted	3,629	3,959	3,808	3,956	3,767	3,703	3,530	3,528	2,931	2,248
EPRA NTA per share (p) – diluted	3,632	3,959	3,812	3,957	3,775	3,714	3,550	3,532	2,906	2,262
EPRA NDV per share (p) – diluted	3,768	3,884	3,682	3,847	3,696	3,617	3,450	3,463	2,800	2,222
EPRA NRV per share (p) – diluted	3,956	4,301	4,138	4,290	4,092	4,011	3,852	3,825	3,163	2,470
Total return (%)	(6.3)	5.8	(1.8)	6.6	5.3	7.7	1.7	23.0	30.1	21.9
Property portfolio										
Property portfolio at fair value ²	5,321.8	5,646.3	5,355.5	5,475.2	5,190.7	4,850.3	4,942.7	4,954.5	4,168.1	3,353.1
Revaluation (deficit)/surplus ¹	(421.4)	134.8	(194.3)	154.6	84.1	149.7	(42.6)	651.4	671.9	337.5
Cash flow statement										
Cash flow ^{1,3}	(27.1)	(142.0)	(63.4)	(22.3)	(245.9)	247.8	19.6	(43.6)	(57.3)	(65.9)
Net cash (used in)/from financing activities	(88.6)	74.7	(27.2)	(16.6)	25.2	(298.2)	(57.0)	2.0	23.4	42.9
Gearing and debt										
Net debt	1,257.2	1,251.5	1,049.1	981.6	956.9	657.9	904.8	911.7	1,013.3	949.2
NAV gearing (%)	30.8	28.2	24.3	21.9	22.4	15.7	22.6	22.8	32.9	40.0
Loan-to-value ratio (%) ⁴	23.9	22.3	18.4	16.9	17.2	13.2	17.7	17.8	24.0	28.0
Net interest cover ratio (%)	423	464	446	462	491	454	370	362	286	279

¹ 2021 and 2020 prior year figures have been restated for changes in accounting policies. See note 2 for additional information.

² Excludes share of joint ventures.

³ Cash flow is the net cash from operating and investing activities less the dividend paid.

⁴ Presented on an EPRA basis for 2022 and 2021.

A list of definitions is provided on page 311.

EPRA SUMMARY

(unaudited)

EPRA PERFORMANCE MEASURES

EPRA measure	Definition	2022	2021
EPRA earnings ¹	Earnings from operational activities	£119.7m	£121.7m
EPRA undiluted earnings per share ¹	EPRA earnings divided by the weighted average number of ordinary shares in issue during the financial year	106.62p	108.53p
EPRA Net Tangible Assets (NTA)	Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax	£4,083.7m	£4,454.2m
EPRA diluted NTA per share	EPRA NTA divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	3,632p	3,959p
EPRA Net Disposal Value (NDV)	Represent the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax	£4,236.2m	£4,369.6m
EPRA diluted NDV per share	EPRA NDV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	3,768p	3,884p
EPRA Net Reinstatement Value (NRV)	NAV adjusted to reflect the value required to rebuild the entity and assuming that entities never sell assets. Assets and liabilities, such as fair value movements on financial derivatives are not expected to crystallise in normal circumstances and deferred taxes on property valuation surpluses are excluded	£4,447.4m	£4,839.7m
EPRA diluted NRV per share	EPRA NRV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	3,956p	4,301p
EPRA cost ratio (including direct vacancy costs) ¹	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income	23.3%	24.9%
EPRA net initial yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs	3.7%	3.3%
EPRA 'topped-up' net initial yield	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents)	4.6%	4.4%
EPRA vacancy rate	Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio	6.4%	1.6%

¹ Prior year figures have been restated for changes in accounting policies. See note 2 for additional information.

EPRA SUSTAINABILITY PERFORMANCE MEASURES

Environmental Sustainability Performance Measures

EPRA measure	Definition	2022	2021
Landlord Grid electricity consumption	Electricity use across our managed portfolio (landlord/common areas) – annual kWh	7,597,369	7,771,615 ¹
Onsite renewable electricity consumption	Electricity use across our managed portfolio (onsite renewables) – annual kWh	81,367	48,188
DL Occupied Grid electricity consumption	Electricity use across our managed portfolio (landlord occupied areas) – annual kWh	175,180	94,436
Tenant Grid electricity consumption	Electricity use across our total managed portfolio (tenant occupied areas) – annual kWh	25,302,791	24,058,669
Total electricity consumption	Electricity use across our total managed portfolio	33,156,706	31,972,908
Like-for-like landlord grid electricity consumption	Energy use across our like-for-like portfolio (landlord/common areas) – annual kWh	7,466,291	7,145,907 ¹
Like-for-like Onsite renewable electricity consumption	Electricity use across our like-for-like portfolio (onsite renewables) – annual kWh	46,324	48,188
Like-for-like DL Occupied grid electricity consumption	Electricity use across our like-for-like portfolio (landlord occupied areas) – annual kWh	81,453	92,555
Like-for-like Tenant grid electricity consumption	Electricity use across our like-for-like portfolio (tenant occupied areas) – annual kWh	24,010,561	22,390,593
Total like-for-like electricity consumption	Electricity use across our like-for-like portfolio	31,604,628	29,677,243
Total fuel consumption	Fuel use (gas, oil, biomass) across our managed portfolio (landlord/common areas) – annual kWh	14,633,956	17,351,169 ¹
Like-for-like total fuel consumption	Fuel use (gas, oil, biomass) use across our like-for-like portfolio (landlord/common areas) – annual kWh	13,199,121	15,189,536 ¹
Building energy intensity	Energy use across our total managed portfolio (landlord/common areas) – kWh per m ²	57	65 ¹
Building energy intensity	Energy use across our total managed portfolio (landlord & tenants) – kWh per m ²	123	128
Total direct greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); a total of gas Scope 1 emissions – annual metric tonnes CO ₂ e	2,988	3,185 ¹
Total indirect greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); Scope 2 energy-use – annual metric tonnes CO ₂ e	1,503	1,670 ¹
Like-for-like total direct greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 1 energy-use – annual metric tonnes CO ₂ e	2,726	2,789 ¹
Like-for-like total indirect greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 2 energy-use – annual metric tonnes CO ₂ e	1,460	1,537 ¹
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m ² – tCO ₂ e/m ² /year	0.012	0.013
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m ² /£m fair market value	0.84	0.85
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m ² /£m turnover	20	27
Total water consumption	Water use across our total managed portfolio (excluding retail consumption) – annual m ³	150,072	107,864 ¹
Like-for-like total water consumption	Water use across our like-for-like portfolio (excluding retail consumption) – annual m ³	132,389	98,736

EPRA SUMMARY continued

(unaudited)

EPRA SUSTAINABILITY PERFORMANCE MEASURES continued

Environmental Sustainability Performance Measures continued

EPRA measure	Definition	2022	2021
Building water intensity	Water use across our total managed portfolio (excluding retail consumption) – m ³ /m ² /year	0.40	0.29 ¹
Total weight of waste by disposal route	Waste generated across our total managed portfolio – annual metric tonnes and proportion by disposal route	1,847	1,157
Like-for-like total weight of waste by disposal route	Waste generated across our like-for-like portfolio – annual metric tonnes and proportion by disposal route	1,521	695

¹ 2021 figures have been restated based on updated calculation methodology. Refer to our latest Responsibility Report for details and for total certifications (Cert-Tot).

Social Performance Measures

EPRA measure	Definition	
Employee gender diversity	Percentage of male and female employees in the organisation's governance bodies (committee or boards responsible for the strategic guidance of the organisation)	See page 189
Gender pay ratio	Ratio of the basic salary and/or remuneration of men to women. As we have less than 250 employees we are not obliged by the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 to disclose our gender pay gap information	
New hires and turnover	Total number and rate of new employee hires and employee turnover during the reporting period	See page 59
Employee health and safety	Occupational health and safety performance with relation to direct employees	See pages 63 and 64
Asset health and safety assessments	Proportion of assets controlled for which health and safety impacts have been reviewed or assessed for compliance or improvement	See pages 63 and 64
Asset health and safety compliance	Any incidents of non-compliance with regulations and/or voluntary standards concerning the health and safety impacts of assets assessed during the reporting period	
Employees training and development	Average hours of training that the organisation's employees have undertaken in the reporting period	
Employee performance appraisals	Percentage of total employees who received regular performance and career development reviews during the reporting period	See the EPRA Reporting section in our Responsibility Report
Community engagement, impact assessments and development programmes	Percentage of assets under operational control that have implemented local community engagement, impact assessments and/or development programmes	

Governance Performance Measures

EPRA measure	Definition	
Composition of the highest governance body	Number of executive board members, number of independent/non-executive board members, average tenure of the governance body and number of independent/non-executive board members with competencies relating to environmental and social topics	See page 134, 135, 146 and 147
Process for nominating and selecting the highest governance body	Nomination and selection process for the highest governance body and its members, and the criteria used to guide the nomination and selection process	See pages 152 to 155
Process for managing conflicts of interest	Process for the highest governance body to ensure conflicts of interest are avoided and managed	See page 146

PRINCIPAL PROPERTIES

(unaudited)

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	BREEAM rating	Approximate net area sq ft
West End: Central (63%)					
Fitzrovia¹ (33%)					
80 Charlotte Street W1 ²	300+	O/R/Re	F	Excellent	347,600
1-2 Stephen Street & Tottenham Court Walk W1	200-300	O/R/L	F	Very Good	266,200
250 Euston Road NW1	100-200	O	F		165,900
Network, 95-100 Tottenham Court Road W1	50-100	O/R	F	*Outstanding	137,000
90 Whitfield Street W1	100-200	O/R/Re	F		103,100
Holden House, 54-68 Oxford Street W1	50-100	O/R	F		90,600
Henry Wood House, 3-7 Langham Place W1	50-100	O/R/L	L		80,100
Middlesex House, 34-42 Cleveland Street W1	50-100	O	F	Very Good	66,500
Charlotte Building, 17 Gresse Street W1	25-50	O	L		47,200
88-94 Tottenham Court Road W1	50-100	O/R	F		45,900
80-85 Tottenham Court Road W1	25-50	O/R	F		44,500
Rathbone Studios, 3-10 Rathbone Place W1	25-50	O/R/Re/L	L/F		42,300
60 Whitfield Street W1	50-100	O	F		36,200
43 and 45-51 Whitfield Street W1	25-50	O	F		29,400
1-5 Maple Place and 12-16 Fitzroy Street W1	0-25	O	F		19,900
171-174 Tottenham Court Road W1	0-25	O/R	F		15,800
76-78 Charlotte Street W1	0-25	O	F		10,500
19-23 Fitzroy Street W1	0-25	O	F		8,100
50 Oxford Street W1 ³	0-25	O/R	F		6,100
Victoria (9%)					
Horseferry House, Horseferry Road SW1	100-200	O	F		162,700
Greencoat and Gordon House, Francis Street SW1	100-200	O	F		138,300
1 Page Street SW1	100-200	O	F	Excellent	127,800
Francis House, 11 Francis Street SW1	50-100	O	F		51,800
6-8 Greencoat Place SW1	25-50	O	F		32,400
Soho/Covent Garden (8%)					
1 Soho Place W1	300+	O/R	L	*Outstanding	225,400
Paddington (7%)					
Brunel Building, 2 Canalside Walk W2	300+	O/R	L	Excellent	243,400
Marylebone (4%)					
25 Baker Street W1	100-200	O/R/Re	L	**Outstanding, ***Very Good	298,000
50 Baker Street W1 JV (50% share)	25-50	O/R	L		61,100
Mayfair (2%)					
25 Savile Row W1	100-200	O/R	F	Very Good	43,000

PRINCIPAL PROPERTIES continued

(unaudited)

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	BREEAM rating	Approximate net area sq ft
West End: Borders/Other (7%)					
Islington/Camden (6%)					
Angel Building, 407 St. John Street EC1	200-300	O/R	F	Excellent	268,300
4 & 10 Pentonville Road N1	25-50	O	F	Very Good	53,400
Holford Works, Cruikshank Street WC1	0-25	O/I	F		41,600
401 St. John Street EC1	0-25	O	F		12,300
Brixton (1%)					
Blue Star House, 234-244 Stockwell Road SW9	25-50	O/R	F		53,400
City: Borders (29%)					
Old Street (12%)					
White Collar Factory, Old Street Yard EC1	300+	O/R/Re	F	Outstanding, Excellent, Very Good	291,400
1 Oliver's Yard EC1	100-200	O/R	F		186,000
The Featherstone Building, 66 City Road EC1	100-200	O/R	F	Outstanding	127,300
Clerkenwell (9%)					
20 Farringdon Road EC1	100-200	O/R/L	L		166,300
88 Rosebery Avenue EC1	50-100	O	F		103,700
Morelands, 5-27 Old Street EC1	50-100	O/R	L	Outstanding	88,700
Turnmill, 63 Clerkenwell Road EC1	50-100	O/R	F	Excellent, Very Good	70,300
19 Charterhouse Street EC1 ⁴	50-100	O	F		63,700
Shoreditch/Whitechapel (7%)					
The White Chapel Building E1	100-200	O/L	F		272,300
Tea Building, 56 Shoreditch High Street E1	200-300	O/R/L	F		272,200
Southbank (1%)					
230 Blackfriars Road SE1	25-50	O	L		60,400
Provincial (1%)					
Scotland (1%)					
Strathkelvin Retail Park, Bishopbriggs, Glasgow	25-50	R/L	F		325,500
Land, Bishopbriggs, Glasgow	25-50	-	F		5,500 acres

1 Includes North of Oxford Street.

2 Excludes sold residential.

3 Includes 36-38 and 42-44 Hanway Street W1.

4 Sold in January 2023.

* On-track for Design Certification.

** On-track for Post Completion target.

() Percentages weighted by valuation.

LIST OF DEFINITIONS

(unaudited)

Better Buildings Partnership (BBP)

The BBP is a collaboration of the UK's leading commercial property owners who are working together to improve the sustainability of existing commercial building stock.

Building Research Establishment Environmental Assessment Method (BREEAM)

An environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings – Good, Very Good, Excellent and Outstanding.

Capital return

The annual valuation movement arising on the Group's portfolio expressed as a percentage return on the valuation at the beginning of the year adjusted for acquisitions and capital expenditure.

Carbon emissions Scopes 1, 2 and 3

Scope 1 – direct emissions;

Scope 2 – indirect emissions; and

Scope 3 – other indirect emissions.

CDP

The CDP is an organisation which works with shareholders and listed companies to facilitate the disclosure and reporting of climate change data and information.

Company Voluntary Arrangement (CVA)

An insolvency procedure allowing a company with debt problems or that is insolvent to reach a voluntary agreement with its creditors to repay its debt over a fixed period.

Department for Environment, Food and Rural Affairs (DEFRA)

The government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

Diluted figures

Reported results adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds.

Earnings/earnings per share (EPS)

Earnings represent the profit or loss for the year attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the financial year to arrive at earnings per share.

Energy Performance Certificate (EPC)

An EPC is an asset rating detailing how energy efficient a building is, rated by carbon dioxide emission on a scale of A-G, where an A rating is the most energy efficient. They are legally required for any building that is to be put on the market for sale or rent.

Estimated rental value (ERV)

This is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

European Public Real Estate Association (EPRA)

A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA's Best Practices Recommendations includes guidelines for the calculation of the following performance measures which the Group has adopted.

EPRA earnings per share

Earnings from operational activities.

EPRA Loan-To-Value (LTV)

Debt divided by the property value. Debt is equal to drawn facilities less cash, adjusted with equity characteristics, adding back the equity portion of hybrid debt instruments and including net payables if applicable. Property value is equal to the fair value of the property portfolio including net receivables if applicable.

EPRA Net Reinstatement Value (NRV) per share

NAV adjusted to reflect the value required to rebuild the entity and assuming that entities never sell assets. Assets and liabilities, such as fair value movements on financial derivatives are not expected to crystallise in normal circumstances and deferred taxes on property valuation surpluses are excluded.

EPRA Net Tangible Assets (NTA) per share

Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.

EPRA Net Disposal Value (NDV) per share

Represent the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

LIST OF DEFINITIONS continued

(unaudited)

EPRA capital expenditure

The total expenditure incurred on the acquisition, enhancement, and development of investment properties. This can include amounts spent on any investment properties under construction or related development projects, as well as the amounts spent on the completed (operational) investment property portfolio. Capitalised finance costs included in the financial statements are also presented within this total. The costs are presented on both an accrual and a cash basis, for both the Group and the proportionate share of joint ventures.

EPRA Cost Ratio (including direct vacancy costs)

EPRA costs as a percentage of gross rental income less ground rent (including share of joint venture gross rental income less ground rent). EPRA costs include administrative expenses, other property costs, net service charge costs and the share of joint ventures' overheads and operating expenses (net of any service charge costs), adjusted for service charge costs recovered through rents and management fees.

EPRA Cost Ratio (excluding direct vacancy costs)

Calculated as above, but with an adjustment to exclude direct vacancy costs.

EPRA Net Initial Yield (NIY)

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.

EPRA 'topped-up' Net Initial Yield

This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

EPRA vacancy rate

Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio.

In addition, the Group has adopted the following recommendation for investment property reporting.

EPRA like-for-like rental income growth

The growth in rental income on properties owned throughout the current and previous year under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either year and properties acquired or disposed of in either year.

Fair value adjustment

An accounting adjustment to change the book value of an asset or liability to its market value.

Global Real Estate Sustainability Benchmark (GRESB)

The Global Real Estate Sustainability Benchmark is an initiative set up to assess the environmental and social performance of public and private real estate investments and allow investors to understand their performance.

Ground rent

The rent payable by the Group for its leasehold properties. Under IFRS, a liability is recognised using the discounted payments due. Fixed lease payments made are allocated between the interest payable and the reduction in the outstanding liability. Any variable payments are recognised in the income statement in the period to which it relates.

Headroom

This is the amount left to draw under the Group's loan facilities (i.e. the total loan facilities less amounts already drawn).

Interest rate swap

A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are generally used by the Group to convert floating rate debt to fixed rates.

ISS-Oekom

ISS-Oekom is an ESG rating service that provides corporate and country ESG research and ratings that enables its clients to identify material social and environmental risks and opportunities.

Key Performance Indicators (KPIs)

Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed. Performance measured against them is referenced in the Annual Report.

Leadership in Energy and Environmental Design (LEED)

LEED is a US-based environmental impact assessment method for buildings. Performance is measured across a series of ratings – Certified, Silver, Gold and Platinum.

Lease incentives

Any incentive offered to occupiers to enter into a lease. Typically the incentive will be an initial rent-free or half rent period, stepped rents, or a cash contribution to fit-out or similar costs.

Loan-to-value ratio (LTV)

Drawn debt net of cash divided by the fair value of the property portfolio. Drawn debt is equal to drawn facilities less unrestricted cash and the unamortised equity element of the convertible bonds.

Mark-to-market

The difference between the book value of an asset or liability and its market value.

MSCI Inc. (MSCI)

MSCI Inc. is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the UK All Property Index.

National Australian Built Environment Rating System (NABERS)

This is a building performance rating system which provides an energy performance benchmark using a simple star rating system on a 1 to 6 scale. This helps property owners understand and communicate a building's performance versus other similar buildings to occupiers. Ratings are validated on an annual basis.

NAV gearing

Net debt divided by net assets.

Net assets per share or net asset value (NAV)

Equity shareholders' funds divided by the number of ordinary shares in issue at the balance sheet date.

Net debt

Borrowings plus bank overdraft less unrestricted cash and cash equivalents.

Net interest cover ratio

Net property income, excluding all non-core items divided by interest payable on borrowings and non-utilisation fees.

Property income distribution (PID)

Dividends from profits of the Group's tax-exempt property rental business under the REIT regulations.

Non-PID

Dividends from profits of the Group's taxable residual business.

Real Estate Investment Trust (REIT)

The UK Real Estate Investment Trust ('REIT') regime was launched on 1 January 2007. On 1 July 2007, Derwent London plc elected to convert to REIT status.

The REIT legislation was introduced to provide a structure which closely mirrors the tax outcomes of direct ownership in property and removes tax inequalities between different real estate investors. It provides a liquid and publicly available vehicle which opens the property market to a wide range of investors.

A REIT is exempt from corporation tax on qualifying income and gains of its property rental business providing various conditions are met. It remains subject to corporation tax on non-exempt income and gains e.g. interest income, trading activity and development fees.

REITs must distribute at least 90% of the Group's income profits from its tax exempt property rental business, by way of dividend, known as a property income distribution (PID). These distributions can be subject to withholding tax at 20%.

If the Group distributes profits from the non-tax exempt business, the distribution will be taxed as an ordinary dividend in the hands of the investors (non-PID).

Renewable Energy Guarantees of Origin (REGO)

The REGO scheme administered by Ofgem provides transparency to consumers about the proportion of electricity that suppliers source/provide from renewable generation.

Rent reviews

Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents are higher) at the review date.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs)

The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work-related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

LIST OF DEFINITIONS continued

(unaudited)

Reversion

The reversion is the amount by which ERV is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of space that is vacant and available to occupy or under development or refurbishment.

Science Based Target initiative (SBTi)

The Science Based Targets initiative (SBTi) is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The SBTi defines and promotes best practice in science-based target setting and independently assesses and approves companies' targets. Science-based targets provide companies with a clearly defined pathway to future-proof growth by specifying how much and how quickly they need to reduce their greenhouse gas emissions.

Scrip dividend

Derwent London plc sometimes offers its shareholders the opportunity to receive dividends in the form of shares instead of cash. This is known as a scrip dividend.

Streamlined energy and carbon reporting (SECR)

The SECR regulations were introduced in April 2019 and require companies incorporated in the UK to undertake enhanced disclosures of their energy and carbon emissions in their financial reporting.

Task Force on Climate-related Financial Disclosures (TCFD)

Set up by the Financial Stability Board (FSB) in response to the G20 Finance Ministers and Central Bank Governors request for greater levels of decision-useful, climate-related information; the TCFD was asked to develop climate-related disclosures that could promote more informed investment, credit (or lending), and insurance underwriting decisions. In turn, this would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

'Topped-up' rent

Annualised rents generated by the portfolio plus rent contracted from expiry of rent-free periods and uplifts agreed at the balance sheet date.

Total property return (TPR)

Total property return is a performance measure calculated by the MSCI and defined in the MSCI Global Methodology Standards for Real Estate Investment as "the percentage value change plus net income accrual, relative to the capital employed".

Total return

The movement in EPRA Net Tangible Assets per share on a diluted basis between the beginning and the end of each financial year plus the dividend per share paid during the year expressed as a percentage of the EPRA Net Tangible Assets per share on a diluted basis at the beginning of the year.

Total shareholder return (TSR)

The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the year, expressed as a percentage of the share price at the beginning of the year.

Transmission and distribution (T&D)

The emissions associated with the transmission and distribution losses in the grid from the transportation of electricity from its generation source.

Underlying portfolio

Properties that have been held for the whole of the year (i.e. excluding any acquisitions or disposals made during the year).

Underlying valuation increase

The valuation increase on the underlying portfolio.

Yields

Net initial yield

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased by estimated purchasers' costs.

Reversionary yield

The anticipated yield to which the net initial yield will rise once the rent reaches the estimated rental values.

True equivalent yield

The constant capitalisation rate which, if applied to all cash flows from the portfolio, including current rent, reversions to valuers' estimated rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Rent is assumed to be received quarterly in advance.

Yield shift

A movement in the yield of a property asset, or like-for-like portfolio, over a given year. Yield compression is a commonly-used term for a reduction in yields.

SHAREHOLDER INFORMATION

Shareholder enquiries

Our Registrar

Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrars, Equiniti (EQ).

The Company has a share account, management and dealing facility for all shareholders via Equiniti Limited. This offers shareholders secure access to their account details held on the share register, to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit: www.shareview.co.uk

The Shareview Dealing service is also available by telephone on +44 (0) 3456 037 037 between 8.00am and 4.30pm, Monday to Friday (excluding public holidays in England and Wales).

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars to pay them directly into a bank or building society account; tax vouchers are then mailed to shareholders separately. This method also avoids the risk of dividend cheques being delayed or lost in the post. Dividend mandate forms are available from the registrars, either from their website at: www.shareview.co.uk or by telephone on the Equiniti general shareholder helpline number.

Advisers

Stockbrokers	JP Morgan Cazenove UBS
Solicitors	Slaughter & May LLP
Auditor	PricewaterhouseCoopers LLP
Registrar	Equiniti Limited

Financial and dividend calendar – 2023

Our forthcoming financial and dividend calendar for 2023 is provided below. These dates are provisional and subject to change. For up to date information, refer to the financial calendar on our corporate website at: www.derwentlondon.com/investors/calendar

Financial calendar

Final results announced	28 February
Q1 Business update	04 May
Annual General Meeting	12 May
Interim results announced	10 August
Q3 Business update	02 November

Dividend calendar

	Final dividend	Interim dividend
Ex-dividend date	27 April	07 September
Record date	28 April	08 September
Dividend paid	02 June	13 October

Financial information about the Company, including annual reports, public announcements and share price data, is available from the Company's website at: www.derwentlondon.com

Company information

As at 28 February 2023, the Company's issued share capital consisted of 112,290,679 ordinary shares of 5 pence each with voting rights (ISIN: GB0002652740).

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. Financial information about the Company, including annual reports, public announcements and share price data, is available from the Company's website at: www.derwentlondon.com

Useful contact information

Equiniti (EQ)

Equiniti Limited
Aspect House
Lancing Business Park
Lancing
West Sussex BN99 6DA
United Kingdom

Equiniti general shareholder helpline:

Calling from the UK: **0371 384 2192**
Calling from overseas: **+44 (0) 371 384 2192**
Lines are open 8.30am to 5.30pm, Monday to Friday (excluding public holidays in England and Wales)

Derwent London plc

For Company Secretarial or Investor enquiries:

David Lawler Company Secretary

Telephone: **+44 (0)20 7659 3000**
Email: company.secretary@derwentlondon.com

Robert Duncan Head of Investor Relations & Strategic Planning

Telephone: **+44 (0)20 7659 3000**
Email: ir@derwentlondon.com

AWARDS AND RECOGNITION

Derwent London won numerous awards for its achievements and buildings in 2022, a sample of which are shown below.



GRESB (Global Real Estate Responsibility Benchmark) 2022 – Green Star status, 'A' rated public disclosure (100/100), Development 5 Star (94/100), Standing Assets 4 Star (82/100)



FTSE4Good – Member since 2003



MSCI – 'AAA' rating



CDP 2022 – Climate change 2022 'B' rating



EPRA Sustainability Reporting Award 2022 – Gold award



ISS Oekom – Prime status



80 Charlotte Street – BCO Best National Commercial Workplace Award 2022



EPRA Gold for Report & Accounts



NES



Highly commended Annual Report of the Year FTSE 250 2022



European Real Estate Brand Award: UK Developer – Offices 2022



Green Apple Environment Award 2022



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